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THE CONCLUDING VOLUME OF MARX'S CAPITAL.

THE third volume of Marx's *Capital*, in two books, comprising nine hundred pages, has now appeared. Thus the remarkable work is brought to a conclusion.* This in externals, at all events; for in its inner and essential structure it has remained uncompleted. Engels, in his preface, describes the unsatisfactory state of the manuscript of the third volume, and the supplementary work which he has been compelled to undertake. As a rule, the beginnings of the seven main parts were worked out with some degree of care. But the further they went, the more sketchy and incomplete they became, until at the

*It is true that, in the preface to the second volume, Engels announced his intention of publishing the historical and critical parts of a manuscript left by Marx, which, under the title *Zur Kritik der politischen Oekonomie*, was to form the fourth volume of *Capital*. In the preface to the third volume he again says that as soon as possible he will begin the fourth volume on the History of the Theory of Surplus Value. Death has now prevented him from carrying out this plan. But, even if he had published such a posthumous work of Marx's, it would hardly have been more than an appendix to the others, and in no sense a systematized part of the whole work.

close there were but fragmentary thoughts or memoranda, and digressions whose place in the text was still undetermined. The influence of bodily illness, which had appeared as early as 1864 and 1865, is often plainly visible; and to this it is to be ascribed that Marx was unable to give the last touches to the second and third volumes. Engels has retained Marx's draft as fully as possible, and has exercised his editorial functions only to secure clearness of statement and propriety of style. In a few passages, however, he has been compelled to bring the matter into satisfactory form himself, or even to rewrite it, on the basis of Marx's material and as much as possible in Marx's spirit. Such passages are indicated by brackets, and so shown to be Engels's work. Least completed were the chapters on Banking and on Money Capital, in the fifth part of the volume. Here, in the main, there was nothing more than unarranged material, memoranda, extracts from official inquiries, with comments of Marx's. Engels was finally compelled to give up the attempt at any set presentation, and had to content himself with simply printing the existing material in as orderly a fashion as possible. It may be a question whether it was advisable to swell the bulk of the volume, already considerable, by incorporating in it these extracts and undigested materials. On the other hand, it may be taken for granted that the editorial changes and additions made by Engels, who more than any other has entered into the Marxian spirit, would have been ratified by the master.

The initial volume of *Capital* appeared in its first edition in 1867. It was a continuation, in a sense, of the *Kritik der politischen Oekonomie*, published in 1859. But the contents of this earlier essay were summarized in the first chapter of the new book, which accordingly was complete in itself. A second edition, described as an "improved" one, appeared in 1872; a third in 1883, after the author's death. To this last edition Marx had been able

to give such shape as to make it a final and definitive statement of his views. The second volume was published by Engels in 1885, with no inconsiderable editorial labor. The bulk of the matter was indeed completed and arranged; but the exact language had not been settled. Some parts had been written out *in extenso*, others barely sketched. Of many passages there were two or more versions. Marx had intrusted to Engels the task of "making something" of these materials. Engels conceived the task literally, and contented himself with selecting the best of the several versions, smoothing the style, and inserting, where absolutely necessary, connecting and transitional phrases. His additions and revisions would hardly occupy ten pages of print, and were in all cases of a formal sort. The second volume may therefore be regarded as coming almost exclusively from Marx himself, even though he would doubtless not have published it in the shape in which it appeared. The third volume, on the other hand, was but half drafted, and, as we have seen, called in much larger degree for editorial work from Engels's pen.

The first volume of *Capital*, as is well known, contains the investigation of the process of capitalistic production. Here are set forth the definitions of value and of goods, the conversion of money into capital, the production of absolute and of relative surplus value, and the process of the accumulation of capital. In the second volume the process of the circulation of capital is taken up,— a process in which, according to Marx, neither value nor surplus value is created. Capital simply passes alternately through the forms of commodity-capital and of money-capital, in order to return, either with simple or swollen reproduction, into that form of productive capital which may be appropriate to the existing stage of production. The two processes, however, form one homogeneous move-

ment; and in the third volume the actual concrete forms are to be investigated, which develop out from this whole process of capitalistic production. In other words, the first two volumes discuss in the abstract, and as if they had an independent existence, things which in fact cannot exist independently. Marx wishes now to come closer to reality, and to describe the shapes which capital assumes, as it appears in the interaction of the different sorts of capital, in the working of competition, and in the every-day consciousness of the producing agents.

To the capitalist surplus value appears in the shape of profit; and for him the value of goods divides itself into cost + profit, or $k + p$. On the other hand, Marx's original formula was w [value] $= c + v + m$. Here c represents what is needed to replace the so-called "constant capital" (raw materials, wear and tear of machinery); v stands for the "variable" capital needed for buying labor, — *i.e.*, for wages; while m indicates the surplus value, which, according to Marx, is brought to the hands of the capitalist only through the use of the variable capital. The capitalist, however, looks at the matter from his own point of view, and does not understand the mode in which the accretion of value really takes place, — "really," that is, in Marx's sense. To him it is immaterial whether his capital is used for buying materials or for paying laborers. He therefore refers surplus value to the total capital advanced by him, $c + v$; and for him the rate of profit is expressed not by the rate of surplus value $\frac{m}{v}$, but by the rate of profit $\frac{m}{c+v}$. Profit and rate of profit are simply on the surface of the phenomenon, while surplus value and the rate of surplus value are the hidden but essential objects of investigation. It is true, says Marx, that the instinct of the capitalist always brings him, even in the immediate processes of production, to some consciousness of the real nature of surplus value. So much appears from his "greed for the labor-time of others." But the

direct process of production always passes over into the process of circulation, then again returning to the first named. Both processes intermingle, and so obscure their characteristic differences. Capital finally issues into entirely different surroundings, where not capital and labor, but capital and capital, stand opposed to each other, and the individuals appear simply as buyers and sellers. Profit thus appears to arise as much from the process of circulation as from that of production; and thus orthodox political economy is led to describe capital, side by side with labor, and separately from labor, as an independent source of surplus value.

But this "mystification of the relations of capital" goes further. It was a moment ago assumed that profit and surplus value were numerically the same, only conceived differently. With the individualist's capital, however, this is not the case. With the more developed external manifestation (*Veräusserlichung*) of the essence of things, profit and surplus value become quantitively different. Nevertheless, Marx enters on a long casuistic investigation on the relation of the rate of profit to the rate of surplus value, and on the functional dependence of the quantities c, v, m, and p: all this under the assumption (not in correspondence with the reality of things) that in general profit and surplus value are equal.

Not until the second part of the volume does Marx begin the examination of the concrete facts which appear on the surface of industrial life. Not till then does he remove the doubt which he has so far permitted to remain, as to the difference between the value of goods as conceived by him and their exchange value as seen in actual life. It might have been expected from the manner in which Marx, in his first volumes, deduced his conception of value from the equation one quarter wheat $= a$ cwt. iron, that he would mean by "value" normal exchange value, accidental disturbances being disregarded; for he

says that in these two commodities, which, notwithstanding their very different values in use, are set down as equal, there must be some element common to both. Apart from their value in use, there is but one common element, that of their being products of labor. They are things in which abstract indistinguishable human labor has been embodied; and, as crystallizations of this common social substance, they are "values." Value is thus the common element which is expressed in exchange and in the exchange value of goods. Such is the carefully stated position of Marx in the first chapter of his first volume. In numerous other places he also expresses himself as if in actual trade commodities exchanged in proportion to their values; *i.e.*, as if value, in his sense, were proportional to the actual normal prices of commodities. But since the value of commodities, according to his doctrine, is determined by the quantity of socially necessary labor, there is an obvious inconsistency between the doctrine and common experience. It is notorious that, in reality, commodities do not exchange in proportion to the quantity of labor embodied in them. Two undertakings may employ the same number of laborers; but, if the one, requiring more buildings and machinery, has invested in it ten times as much capital as the other, the value of the yearly product of the two, even after making allowance for the necessary replacing of fixed capital, will unquestionably not be in proportion to the quantities of labor embodied. The price of the one will contain ten times as much return to capital as that of the other.

Marx, of course, is as well aware of this fact as any orthodox economist. Already in his second volume he had referred to the dependence of the annual rate of surplus value on the turn-over of capital; but what he had to say in explanation of this "curious phenomenon" was so forced and so unsatisfactory that the reader was led to believe that he was keeping back some great discovery, by

which the relation between value as it actually appears and the quantity of labor embodied in commodities would receive new and surprising light. Engels, also, in the preface to the second volume stated the problem to be solved by Marx's opponents in such terms as to create an expectation that some relation heretofore overlooked would be revealed. The world was to be shown how a uniform rate of profit would appear, not only without violation of the Marxian law of value, but in consonance with it.

Several authors since then have engaged themselves on the task thus set, among them the present writer. It was clear that the *price* of individual commodities was not the same thing as their *value*, in Marx's sense. It might indeed be said, on the other hand, that the value of *all* the commodities produced in any one year is measured by the quantity of labor embodied in them, and is proportional to the actual price of the total mass. But there is not much to be made of this proposition. Suppose that A signifies the total mass of normal labor embodied in the yearly product, L the average wages paid for this unit: then, doubtless, the price of all the products of any one year can be indicated by the equation $P = A\ C\ L$, C indicating a coefficient to be duly determined. According to Marx's doctrine this coefficient, or, to be more accurate, the product $C\ L$, must be constant in different years in which the quantity of labor exerted was of different volume, so that for the total prices P, P', P'', it would appear that $P : P' : P'' \ldots . = A : A' : A'' \ldots .$ If it were statistically possible to verify these equations, it would probably appear that in a large community, over not too long a period, in which the methods of production and the proportion of fixed capital to wages capital did not greatly change, they were approximately accurate; but we learn nothing from them as to the relation of capital to wages.

In my endeavors at reaching an explanation of Marx's theories I have therefore tried to solve the problem from Marx's own point of view. The essence of the attempted explanation is that capitalists appropriate a portion of the sum of values which has been exclusively created by the laborers. This total sum A accordingly consists of two parts, Aa and Ac. Aa indicates the labor contained in the commodities that go to wages. Ac indicates that which creates surplus value, and is embodied in the commodities that go to the capital class. If, now, we indicate the total prices of these two masses of commodities by the symbols Pa and Pc, whose sum is P, the following equations can be deduced as to the size and composition of the two masses: —

$$Pa = Aa\ C\ L$$
$$Pc = Ac\ C\ L$$

$C\ L$ here has the same value in both equations. Thus the values which appear in the actual prices of the total mass of wages commodities and the total mass of profits commodities would in fact be proportional to the quantities of labor contained in the two. What is not true of the individual capitalist in relation to his single operations would yet be true of the capitalists as a class in relation to the laborers as a class. The capitalists compel the laborers to produce surplus value; and this surplus value, as well as the share of the total value which goes to laborers, would be measured by the prices of those shares of the annual product which go respectively to capitalists and to laborers. In what manner the capitalist class then divides its total share among its individual members is a matter of indifference for the laborers. In fact, the capitalists bargain with each other on the basis of assigning to each one a share proportional to the amount of capital contributed by him. Land-owners are also capitalists, in the sense in which the term is here used. They get their share on the basis of a capital credited to them

by a quasi-fictitious process, their rent being simply capitalized. Similarly, those capitalists who do not directly employ laborers, such as merchants and bankers, get their share of the total of the surplus value on the basis of the capital owned by them. In the preface to the third volume Engels remarks that this my exposition of the Marxian doctrine, though it by no means solves the problem, at least states it, if loosely and superficially, with reasonable correctness.

We will proceed now to that solution, unattainable for the vulgar economist, which Marx himself gives in the second part of the third volume. It is the simple and obvious solution which every one who gives any attention to the problem first turns to, and then brushes aside because he must believe that there is something more beneath. The surplus values which the individual capitalists, under Marx's doctrine, should divide in proportion to their variable capital, are all added together, and then compared with *the sum of the constant and variable capitals*. Thus an average rate of profits is reached, equal to the average of surplus value in its percentual relation to the different capitals composed in varying proportions of c and v. Add now to the cost price of each commodity such profit as is called for by the average rate and the quantity of capital invested in the particular enterprise, and you have the actual price of the commodity. This differs in all cases more or less from its value as conceived by Marx. Therefore, some commodities, as he now explains, are sold for more than their value, others for less than their value. That the sum of the positive differences equals the sum of the negative differences, is not surprising. The differences arise merely because individual surplus values differ from the average of surplus value, and it is a very simple theorem that the algebraic sum of the differences of any number of single quantities from their arithmetic mean is always zero. Two series of commodities may have the

same average value, yet the individual members of each series do not need to have any fixed relation to the individual members of the other series. There is, therefore, no fixed relation between the value of commodities in Marx's sense and the actual exchange values or prices of commodities. Marx does not even make an endeavor to explain any proportion or relation, such as the present writer tried to find, between the total prices and the total "values" of the commodities which go to laborers and capitalists respectively. He contents himself with the proposition that, for the sum total of commodities, variations of their prices from their values offset each other,— a conclusion which, as has already been said, follows as a matter of course from the nature of the average with which he starts.

It is very simple, then, to lay it down as a mathematical proposition that the separate rates of profit, as they appear in each branch of production according to the amount of constant or variable capital employed in it (the "organic composition" of capital), will result in some general average rate. But how this is carried out in the actual world Marx explains in a manner far from satisfactory. He simply refers to the forces of competition,— forces to which, as a rule, he gives little attention. The rate of profit is supposed at the outset to have been very different in different branches of production. Then capital turns by preference to those in which it gets the large gains, and withdraws from those from which it gets the smaller. Prices, or exchange values, are thus so determined that every capital of the same size, no matter what its composition, gets the same average return. But the hypothesis on which this rests is quite untenable. The equality in the rate of profits (apart from accidental irregularities) is of the essence of capitalistic production. There never has been a social condition in which capitalistic methods of production and yet inequality in the rate

of profit caused by the different composition of capital have existed side by side. The equality of profits appears *pari passu* with capitalistic methods of production and in inseparable connection with them; much as, in the embryo, the circulation of the blood develops *pari passu* with the development of shape and form.

Marx does not improve the situation by imagining a "capital of average composition," which is made up of constant and variable capital in such manner that profits and surplus value become equal. Such a capital of average composition is by no means an existing normal type. It is but the outcome of a simple arithmetical operation, which rests entirely on the addenda with which it starts, and has no effect whatever upon these addenda. If in any single branch of production, in consequence of the changes in the arts, the relation of c to v becomes different, it follows very simply that there is a change in the average composition of capital. If in any particular branch of production the proportion of c to v should be the same as the average proportion, this would be no more than an accident; and the equality would disappear the moment that in any other branch of production the existing relation of c to v should become different. The capital of average composition is a simple figment, and by no means furnishes, as Marx seems to think it does, any basis for measuring the variations in the rate among those branches of production where capital is made up in proportions different from the average.

Value, as conceived by Marx, is thus a purely theoretical conception. The thing is never to be found in reality, neither in the normal exchanges of commodities nor in the consciousness of the individuals who take part in these exchanges. The quarter of wheat and *a* cwt. of iron do not therefore exchange for each other, because in both of them there is the same quantity of jellified labor. The empirical derivation of his definition which Marx

gave in the first volume thus disappears. He has simply decreed *a priori* that the quantity of socially necessary labor embodied in a commodity shall be for him the measure of its value. He admits that the actual prices, or, as he calls them, the production prices, of individual commodities, do not conform to his law of value. Yet he wishes to preserve the validity of that law for the total of commodities produced, in which he cannot succeed, simply because there is no other quantum of commodities to be compared with this total mass.

It may be asked why Marx clung with such tenacity to this imaginary and unreal conception of value. One reason, doubtless, is that this conception was the foundation of his analysis of capitalistic production; another, that he believed all economic theory to hang suspended in air unless it had a firm foundation in the equation, "value = jellified labor." Having once laid down his law of value as the underlying principle of all economic phenomena, he thought it necessary to begin by deducing conclusions from it on the assumption that it held good literally in its pure and simple form. This task is undertaken in the first two volumes, in which the reader is intentionally left in doubt whether the formulæ do or do not hold good in concrete life. Occasionally, it is true, he intimates that, in his opinion, the phenomena are no more than "appearances." Frequently he calls attention to his *assumption* that commodities are sold at their value; in other words, that their "values" are represented by their exchange values, or prices. This by no means implies, as the reader may be led to suppose, that such a correspondence exists in fact. In his third volume he now tries to show what relation his ideal constructions have to the actual economic processes. His theory gives him one set of formulæ: experience presents another and a different set. There is no difficulty in reaching an arithmetical relation between the two, and deducing from

the total of surplus value the average rate of profit for the whole of capital. But this by no means proves that Marx's law of value exercises any such decisive influence as he ascribes to it. It only shows that his hypothetical law can be logically reconciled to economic experience, provided that it is applied not to individual commodities, but to the total of commodities.

We may now proceed to consider how Marx carries out his comparison between theory and the facts in other directions. It would be out of the question to follow him in his tireless casuistics, in which every possible combination is worked out, much to the fatigue of the reader, and with no adequate reward for the pains. We may be content with noticing some of the more important points.

Most interesting is his treatment of the law of the tendency of profits to fall. The existence of this tendency has long been noticed by the vulgar economists, but Marx believes that they have not been able to find a satisfactory explanation. His explanation is that, with the development of capitalistic production, constant capital always grows at the expense of variable; that is, for the same number of laborers larger and larger sums are devoted to machines and materials. Suppose that the constant capital $c=100$; that the variable capital $v=100$; that the rate of surplus profit $\frac{m}{v}=1$, or 100 per cent.: then the rate of profit is $\frac{m}{c+v}$, or $\frac{100}{200}$, or 50 per cent. Suppose now that c is equal to 400, v and the rate of surplus value remaining the same: then the rate of profit is $\frac{100}{500}$, or 20 per cent. The more c grows, other things remaining the same, the more must the rate of profit fall. Now, it appears that in all branches of production such a relative growth of constant capital in fact appears. This is the natural consequence of the increasing productiveness of labor, whose concrete effect it is that, with the increasing use of machines and fixed capital, more materials can be

converted in a given space of time into commodities by the same number of laborers. Hence the general tendency to a decline in the average rate of profit.

Nevertheless, the still more rapid accumulation of capital enables the total of profit going to capital also to increase. The absolute quantity of labor set into motion by capital and its exploitation will increase, notwithstanding the *relative* decline in the variable capital. Consequently, the absolute mass of surplus value will grow. For, according to Marx, it is of the nature of the capitalistic process that the increasing mass of means of production which are to be converted into capital shall find a corresponding increase, and even an excess, in the exploitable population. As capitalistic production develops, the possibility of a relatively redundant number of laborers also develops; and this not because the productiveness of social labor decreases, but because it increases. Marx simply inverts Malthus's proposition. The excess of laborers arises not from a discrepancy between population and means of existence, but from a discrepancy between the steady growth of capital and its relatively diminished need for a greater population.

The law that the rate of profit falls, while the absolute mass of profit rises, finds expression in another way. The prices of the individual commodities fall; but the sum total of profits contained in the prices of all commodities rises. Marx implies that the individual capitalist misjudges the actual situation, believing that he can offset the decline in the price of the individual commodity by selling a larger quantity, and so getting higher gross profits. But this is not in correspondence with the facts. The proposition that the prices of single commodities fall, while the gains from the total sales rise, holds good only for capital as a whole. The individual capitalist lowers the price of his commodity only if he can thereby obtain, even though but temporarily, a rise in his individual rate

of profit. He does so only because he believes that by a quicker turn-over of the same capital he can get a higher per cent. of gain in the course of the season. In such cases each individual decides for himself what rate of profit he will aim to secure from every unit produced. But the decline in the general rate of profit on capital takes place independently of his volition. As a rule, individual capitalists get no offset for the decline in the rate from the increase in the total quantity of capital. Either their capital does not increase at all or not enough to offset the decline in the rate of profit. Only a few great capitalists are able to maintain accumulation in the manner described by Marx. A very large part of the fresh accumulations of capital are made by new sets of small capitalists, whose savings are united into large masses through joint stock companies.

Of course, the decline in the rate of profit cannot continue indefinitely; for then profit would disappear entirely, which would be inconsistent with the maintenance of capitalistic production. Marx accordingly sets forth a number of reasons which check the tendency to a fall. The first of these is the "intensification of the exploitation of labor." This appears more particularly in the lengthening of the working day and in the increased intensity of labor. Once more he lays emphasis on the lengthening of the working day, — "this invention of modern manufactures, which has increased the volume of the appropriated surplus labor without increasing the ratio of labor to constant capital."

These words were written about 1865. Even then they were contradicted by a tendency distinctly visible in social development. At present they are simply an anachronism. In what great industry is it now conceivable that the working day should become longer? In all trades and in all countries the working day has been sensibly diminished, and in some states a maximum working day already

exists by law. Much the same can be said of Marx's account of the exploitation of the labor of women and children. The labor of children in factories has been very greatly limited by law in all countries. In Switzerland, Austria, and in most German states, children are not permitted to work in factories before the end of their fourteenth year; in the other German states, not before the end of the thirteenth year. In these countries such labor practically no longer exists. The labor of women, too, has been limited by law in most countries to ten or eleven hours. In short, that lengthening of the working day, which Marx's casuistry so often refers to as a favorite device of the capitalists for squeezing out more surplus value, practically can no longer figure in the case. It is doubtless true that some increase in the intensity of labor has gone hand in hand with the diminished hours of work; but surplus value has hardly been increased thereby, probably has not been kept at its former height. In this direction, therefore, we can find no noticeable check to the tendency of profits to decline.

As another check, Marx adduces the greater cheapness of the constituents of constant capital. In consequence of the greater productiveness of labor the value of these constituents has not risen so much as their quantity. Industry on a great scale makes possible a more complete utilization of machines and other instruments of production, as well as a lessening of general expenses, and other savings in constant capital. Further, the decline in the rate of profits has been checked by forcing wages below the value of labor; which presumably means forcing the price of labor exertion below its value. This, however, would signify that wages no longer sufficed to yield to laborers the rate of wages determined by their standard of living, which can hardly happen except in times of severe crisis. Under normal conditions, reductions of wages are in our time almost impossible. Even under the

worst conditions, capitalists in many cases prefer to endure a diminution of their profits rather than enter upon a struggle with their organized laborers. How many corporations maintain wages unchanged, even though the stockholders — *i.e.*, the capitalists — get no dividends?

Marx, in fact, sees himself obliged to give to the capital of corporations a place of its own. He believes that dividends are only a form of interest, and are lower than the average rate of profit. They stand outside the process by which this latter is determined. The greater the growth of corporation capital, the less the pressure which brings about the decline in the rate of profits. Consequently, Marx believes that the increasing development of corporations contributes not a little to maintain the average rate of profit.

But this conception of the corporation and its effects is not consistent with the facts of the case. Such capital does not receive interest. It receives profits under the same conditions as individual capital. It is simply compelled to pay higher expenses for management, and sometimes to submit to losses from carelessness and extravagance in administration. When a factory passes from the hands of an individual owner into those of a company, the relation of capital to labor remains unchanged. With the same number of laborers the amount and the rate of surplus value remain the same. Stockholders get the same rate of profit as the individual owner. They are by no means disposed to content themselves with simple interest on the capital; they wish to get as much surplus value as possible. The products of the factory compete with those of individual owners, and they affect the market and prices simply in proportion to the quantity they turn out. It is certain that the profits of stock companies — even though the stockholders suffer somewhat under the disadvantages mentioned a moment ago — have their share in the formation of the general rate of profits; and,

the greater the number of such companies, the greater their effect upon the rate. This effect, however, is by no means, as Marx says, to check the decline in the rate. On the contrary, it is, in my opinion, the chief cause of that decline. It is a familiar fact that corporations continue to produce under circumstances which would cause the individual capitalist to cease operations. In times of active speculation such companies are founded in large numbers, with little regard to the probable future reaction in the demand for their products. They cease operations, as a rule, only when their working capital and their credit have been exhausted. In manufactures, consequently, the increasing competition of corporations means that the considerations which affect the individual capitalist no longer are decisive. The prices of products are kept low, and so the profits of individual capitalists and the general rate of profits are lowered. There are already branches of production in which the capital of the corporations exceeds that of the individual operators, and in future the actual results of capitalistic production will have to be judged more and more by their experiences.

Marx enumerates still another check to the decline in the rate of profits. This is the relative overpopulation which he believes the capitalistic method of production ever to create anew. The labor which is set free by the steady growth of constant capital in some branches of production finds employment in others in which human labor still preponderates. In these latter constant capital becomes in its turn preponderant only by a gradual process. Further, capital which is invested in foreign trade can secure a higher rate of profit; for an advanced country can sell its commodities for more than their value in countries which are less developed, and this even though it sells its commodities at prices which are low in comparison with those ruling in the less developed country. In

this manner the average rate of profit in the first country is again affected favorably.

Marx then proceeds to consider the inherent inconsistencies which develop from the law of declining profits. Yet, curiously enough, he gives no attention to an inconsistency which, from his own point of view, presents itself on first inspection. If value arises exclusively from the labor which is bought with variable capital, and if the profit of capital arises only from the appropriation of a part of the value created by labor, how is it to be explained that capital constantly shows the tendency to displace human labor,—the one value-creating thing,—and to substitute inanimate means of production which have no capacity to produce value? If the capital of a country, in consequence of the introduction of better machines, employs three million laborers in place of six millions, then, according to Marx, only one-half of the previous amount of value is created. Capital has diminished its gains, not only relatively, but absolutely; and its improvements have been to its own detriment. Marx never put the question in this precise form, but here and there in his later exposition there are passages which may serve to answer it. He notices in the first place a conflict between the immediate exploitation of labor,—the absorption of unpaid labor by capital,—and the conditions for the *realization* of surplus value, which can take place only by the sale of the product in the open market. Here the capitalists encounter the obstacles arising from the existing conditions of distribution. By these the consuming capacity of the great mass of the population is so limited that the commodities which come to market can sometimes be sold only at a loss. In fact, there is a conflict in a wider sense. Capitalistic production brings a tendency to an absolute development of the means of production. On the other hand, it endeavors to maintain the value of existing capital, even to increase it. The increase in the productive-

ness of labor causes an increase in the quantity of useful things, but leads at the same time to a diminution in their value. It is to the interest of capital, however, to secure the greatest turn-over and the greatest possible gain. Capitalistic production is thus an historic means of increasing the instruments of production in such manner as is necessary for the satisfaction of the wants of the community. On the other hand, there is a perpetual conflict between this, its historic mission, and its more immediate aim to secure the greatest return from the capital on hand. At the same time the capital on hand at any given time is exposed to steady depreciation because of the steady improvements in machinery and the continued cheapening of all the constituent elements. True, the decline in profits is hereby checked; but at the same time the formation of new capital is stimulated, and accumulation is hastened.

There is, again, an inherent inconsistency in the fact that overproduction of capital and excess of population — therefore incomplete employment of the laborers — can coexist. In such cases there is by no means absolute overproduction of the instruments of production. They are redundant only in so far as they are appropriate to be used to advantage *as capital*. The excessive population of laborers is no longer applied to the redundant capital; for the swollen capital would yield only as much surplus value as the original capital, perhaps even less. The explanations which Marx gives of the periodicity of crises, and on other related topics, are of great interest, but must here be passed over.

The fourth part of the book treats of the transformation of commodity-capital and of money-capital into commodity-*trade*-capital and money-*trade* capital. The division of labor gives to the capital which is employed in the process of circulation a function which in externals is com-

plete and independent. That function is put in the hands of a special class of capitalists, the merchants and bankers. Now, the labor which is employed in the process of circulation — setting aside that directly applied to transportation — produces neither value nor surplus value. Consequently, the profit secured by mercantile capital has no independent source: it is simply a portion of the surplus value which is created for capital as a whole in the process of production. The true producers have transferred a part of the functions necessary for the utilization of their products to the merchants, and must therefore cede to them a share in surplus value proportionate to the capital of the merchants. Strict consistency would then require Marx to admit that the profit of merchants does not arise from the exploitation of the laborers directly employed by them, — the clerks, porters, and so on. But he cannot bring himself to this view. The unpaid labor of the clerk, he says, does not indeed produce surplus value; but it enables the merchant to appropriate surplus value, and thus is a source of profit for him. Without his help mercantile business could not be undertaken on a large scale, and therefore not in true capitalistic fashion. It is obvious, however, that there is no relation between the gains of a merchant or banker and the labor of his employees. Those gains depend upon the money turnover. As a rule, no more correspondence and office labor are required to dispose of a transaction of a thousand dollars than to dispose of one of ten thousand dollars; and there is no more labor involved in discounting a note for one hundred thousand dollars than in discounting one for ten thousand. Yet the profit in the one case is ten times as great as in the other. If a merchant with a capital of a million makes profits of a hundred thousand, he owes it simply to the fact, which Marx himself has fully explained in an earlier passage, that his advances of capital have enabled him to secure a portion of the surplus value created

in the course of production. His clerks render him services towards the attainment of his share of the surplus value, but their number is always comparatively small. If he really does pay them too little, he saves at best only a few thousands, which represent but a small fraction of his total gains.

The fifth part considers the division of profits into interest and so-called earnings of management. This topic is explained by Marx on lines essentially similar to those of traditional economics. Capital gets its total gain out of the process of production; but, if the active capitalist is not owner of the entire capital, he must give some share of the gains to the partner who has lent him capital. That share, agreed upon beforehand, at so much per cent on the loan, is interest. The chapters on credit, on money-capital, on banking, on the circulating medium, contain in part no more than collections of material out of English parliamentary inquiries. The frequent marginal notes to these are caustic, and often hit the mark. There are also many noteworthy contributions to the theory of money and of banking, which are of value quite apart from the author's socialistic point of view.

The subject of the seventh part is rent. Capitalistic production has in the main put an end to the old forms of property in land, and to the conditions of lordship and serfdom which arose from them. Agricultural production, like other production, has turned to salable commodities; and the rent of land has become a money rent. The final source of the rent of land is again the surplus labor embodied in agricultural products. But the surplus value goes only in part to capital as such. A part is "captured" by the land-owner. Moreover, with the development of agricultural products as "values," the land-owners secure the power to appropriate an increasing proportion of the value which is created without aid from them; and they transform it into rent.

Marx distinguishes between differential rent and absolute rent. The former arises, as a rule, from the fact that the possession of certain sites (mines, waterfalls being also such) makes it possible to produce some commodities at a lower cost price than that which determines the market price. The owners of these sites are thus able to secure an extra profit, which competition cannot take away from them, because land of the superior quality exists only in limited quantity. They thus possess a relative monopoly. The differential rent thus arising appears, according to Marx, in two forms. In the first form it is the result of the different productivity of the same capital when applied to pieces of land of different fertility; while in the second form it arises when quantities of capital are applied successively to the same piece of land, with different degrees of productiveness. In fact, however, rent appears in this second form only with great irregularity and under peculiar conditions. To prove its truth, every dose of capital applied to the land would have to be shown to yield a *permanent and constant* increase in the yield. But the effect of agricultural improvements is in very many cases a diminishing one, and endures only for a shorter or a longer period. Even granting, therefore, that the last dose of capital usually brings a smaller increase in the yield than the first dose of capital brought when originally applied, it does not follow that the capitalist still secures from the first dose the same yield as at the outset. It does not follow, therefore, that the higher price of each unit of product, which was a condition of the last improvement, still yields him a differential rent on the earlier improvement.

Absolute rent arises from the simple fact that the landowner is able to withhold his land from production until some use of it appears which will yield more than the ordinary return on capital; that is, will yield rent. Even though the price of agricultural produce should rise so

high that the ordinary return on capital could be secured even on the very worst land, the owner, nevertheless, does not put that land at any one's disposal without rent. He lets it only when he can get a rent; that is, when the price of agricultural products has gone still higher. Ricardo, unquestionably, was not aware of this fact. But then Ricardo assumed tacitly that there was always some unappropriated excess, such as exists in newly settled countries, of the land which for the time being was of the poorest class. Marx now endeavors to show that, as a rule, this absolute rent does not arise from a simple monoply price in the products, and that it is not independent of the "values" of these products. It can arise, he says, only when the proportion of constant capital to variable capital is less in agricultural operations than in other applications of capital. In such case the "value" of the product, measured by the labor embodied in it, is greater than its cost price. But the refusal of the owners, desirous as they are of a rent, to permit the application of capital to unoccupied land, causes the market price of products to exceed their cost price. Market price thus approaches more or less closely to the real "value" of the product. Until it has reached this real value, there is no monopoly price. The land-owners are simply able by means of their monopoly to appropriate a part of the excess value produced in agriculture, and this appropriated surplus value does not enter into the process by which surplus value is equalized as average profit. A true monopoly price, determined simply by the needs and the means of the purchasers, does not arise until the market price goes above Marx's "value" of the product. It is difficult to find much practical significance in these distinctions, when once it is remembered that the "average composition" of capital is simply an arithmetical conception, and has no substantial existence.

Space lacks for a consideration of the interesting pas-

sages on the genesis of rent, and on the forms which this assumes as labor rent, product rent, and money rent. Similarly, in regard to the fragmentary concluding part, which treats of revenues and their sources, we may content ourselves with noting that it attacks as fundamentally false the dogma that the value of commodities resolves itself in the last instance into wages, profits, and rent. For myself I am of opinion that, when due allowance is made for the half-finished commodities which each period of production receives from that which precedes it, and in turn passes on to that which follows it, this dogma will be found to be confirmed by experience.

As Marx planned his work, it was to be finally brought to a close in a fourth volume. But of this not even a first sketch seems to have come into existence. *Capital* thus remains a torso. Even as such, however, it is a product of perhaps the most intense intellectual exertion which any thinker has ever devoted to the investigation of economic phenomena. By this it is not to be understood that Marx has found the right solution even for the main problems. Nor can it be said that his intellectual work, scattered as it was over too many separate questions, always secured a result corresponding to the intensity of the exertion. But it is certain that, differ as we may as to his practical socialistic tendencies, he is to be assigned a foremost place among the theorists of economic science. In method and in cast of mind he most resembles Ricardo. The fundamental views of Ricardo, in fact, supplied him with the points of departure for his own system, which can be said to be in essentials a development, in a sense strictly logical, of Ricardo's thoughts. Again, notwithstanding the great difference in the outcome, there is a resemblance in their modes of conceiving economic phenomena between Marx and Quesnay. That writer, with Adam Smith and Ricardo, is among the few econo-

mists of whom Marx speaks with respect. The manner in which Marx in his second and third volumes groups the individual economic phenomena into great social masses reminds one of the *Tableau Économique*. Even more striking is the analogy between Quesnay's *produit net* and Marx's surplus value. Both investigators ask, how does the division of the total yearly product take place between the classes who produce and the classes who do not produce? Quesnay declares that only the labor which is devoted to agricultural operations is "productive." Here alone the aid of nature enables a surplus to be secured over what is consumed by the agricultural undertaker and laborer. That surplus becomes the *produit net*, which then becomes the income of the disposable class, or land-owners, and the income of the sterile class, the manufacturers and merchants. According to Marx, all socially necessary labor is productive in the sense in which the Physiocrats used the word. It produces more than what is necessary to support the laborer. Such labor is performed only by the actual laborers, irrespective whether employed in agriculture or in manufactures. The surplus value produced by the laboring class goes to the capitalist class, which is not productive. To that class belong not only the manufacturing and trading capitalists, but also the rent-receiving land-owners and the owners of agricultural capital (excepting so far as these last may take some part in productive labor). Marx himself says of the Physiocrats that agricultural capital was believed by them to be alone productive of surplus value; they therefore concluded, rightly enough from their point of view, that only the labor which was set in motion by agricultural capital was productive. They deserve praise for going beyond the superficial form of trade capital, which operates only in the process of circulation, and proceeding to really productive capital. Nay, it is even true that all creation of surplus value has its natural basis in the productiveness of agricultural labor.

Marx's economic theories can be judged quite apart from his socialistic tendencies. They could be presented in the form of an analysis of things as they actually are, without giving any offence to capitalists or arousing among laborers any hostility to the capitalistic method of production. Marx professedly sets aside, as props for his system, all considerations of morals or of justice. He cannot refrain, it is true, from giving his conclusions an ethical turn, by the expression of his antipathy, his hatred, for existing conditions. When he speaks of "the bleeding of the laborers," "the greed of manufacturers for unremunerated labor," "the capitalist's preying instincts," "the booty squeezed from the laborers," there can be no doubt as to the state of mind in which he writes, and which he is likely to arouse in his readers. The actual position of the laborers in their relations with capitalists was not presented in any more comforting light by Ricardo than by Marx. But Ricardo simply leaves the impression that matters are arranged, not indeed so as to be particularly agreeable for the laborers, but at all events in a feasible and unalterable working order. *C'est le ton qui fait la musique.*

It would be quite possible to retain Marx's theory as to the profits of capital and at the same time to describe the capitalist, in the manner of Bastiat, as a philanthropist who exchanged services with his brothers, the laborers. It is unquestionable that there exists in society a class of persons who do not work and who yet receive a share of the goods produced. It follows, as a matter of course, that their share is the product of the labor of others. But it does not follow that this share gets into the hands of the non-laborers without any *quid pro quo* from them. If I let a house to another person, and take rent from him, no one regards the tenant as a victim of my exploitation. It is simply assumed that he finds in the privilege of using the house a complete equivalent for what he has

paid. But if I put my factory, my machines, and my raw materials at the disposal of the laborer, and thereby enable him to earn something by labor which otherwise would be useless, I again render him a service; and it would seem to be just that he should render me a service in return. It is immaterial whether the transaction takes the form of rent, or interest, or the ordinary machinery of wages payments, in which the capitalist takes the additional risk of disposing of the product. Of course, the socialists will protest against this very mild conception of the part played by the capitalists. They will declare it an unendurable social wrong that the laborer is unable to bring his labor to bear without entering into a condition of dependence upon the capitalist. The capitalist, they will say, does not simply offer the use of his means of production. He mercilessly exploits the economic advantage which the existing social order gives him. The laborer is divorced from the means of production. Without them he he is helpless, even in danger of starvation. Whether this version of the case or the more optimistic one is accepted must be largely a matter of temperament and individual interest. Thus, even if the Marxian theory of existing economic conditions were completely adequate, it could form as easily the basis of a theory of economic harmonics, like Bastiat's, as that of socialistic attacks on capitalist production.

This, to be sure, is true only if we consider the theory as a simple scientific analysis of existing conditions. But it contains in addition a distinctly socialistic ferment. Marx, as is well known, is a Hegelian. He sees in the economic development of mankind a dialectic process. In this the ideas that unfold do not indeed spring from any metaphysical source, but from the minds of man; yet in their evolution they follow the Hegelian scheme of thesis, antithesis, and synthesis. Therefore, Marx concludes that the capitalistic system of production

is nothing absolute: it is but a temporary phase of evolution, having only an historic justification. It creates of necessity a conflict within itself, which steadily becomes more intense until destruction ensues. A new and higher phase of evolution develops, superseding the earlier one. In an earlier passage reference has already been made to this conflict. It arises from the tendency, innate in capital, towards an increase in productive power, which is in steady conflict with the more circumscribed aim of securing profitable employment for capital.

Now the *bourgeois* economist will say: Conflicts and difficulties, such as arise from overproduction, depressed prices, and the eventual crisis, are simply results of the imperfection of all things human. They can never be completely removed, but a good deal can be done to mitigate them. Marx answers: These difficulties are not accidental or temporary. They are the manifestations of an irresistible evolution, which eventually will burst the bonds of the existing *régime*, and will produce of necessity a different form of production. In this the indefinite development of productive power will no longer be dependent upon capital, but will be desired in itself as a means of securing an ever more abundant satisfaction of the wants of the producing community. What shape this new system shall take Marx does not say. Nor indeed is there occasion to borrow trouble on this score. The development of the immanent social ideas takes place independently of the consciousness or will of the individual. Marx believes, to be sure, that the consummation will not be reached without revolutionary means. There will be a conflict, man to man. But such incidents cannot affect the direction or the end of the process of evolution. Marx simply deigns to give no answer to the every-day economist who is so weak-minded as to fear that the conflict might lead to anarchy, to reaction, to a collapse of civilization.

These views of Marx's are closely connected with his materialistic conception of history. The political constitution of the state, and indeed every phase of social life, are believed by him to depend on the economic system. It is not the state which determines the economic system. The reverse is the case. The state hitherto has been simply the organization of the class rule of the time being. If one class succeeds another as the dominant one,—as the middle class of modern times has taken the place of feudal nobility,—a corresponding change takes place spontaneously in political forms; and the whole intellectual life of society takes a different stamp. An end to this process will not be reached until the proletariat gains its victory. Then every form of class rule will cease, and the historic part which the State has hitherto played will be set aside. It is not to be denied that the division of economic power and the organization of the State are closely connected in history. Nevertheless, Marx's view is as one-sided as that which supposes the individual to be influenced in his economic dealings solely by egoistic motives, and disregards all other motives and passions.

Value, again, according to Marx, is a conception which lies beneath the surface of the phenomena, and controls the process of production even in its present form, even though it does not appear approximately in visible experience, nor emerge in the every-day consciousness of the productive agents. Marx's "value" is of his own creation, and is by no means coextensive with value as psychologically conceived. We say that a thing has value when it is useful, and at the same time cannot be secured without some difficulty, some sacrifice, some exertion. We measure value according to the degree of this difficulty of attainment. The inconvenience or discomfort of overcoming the difficulty of attainment can at the most equal, but can never exceed, the pleasures derived from the possession of a commodity, supposing, of course, that it is

a question of its fresh acquisition. Now, beyond doubt, the labor necessary for producing a commodity is an important element, often the most important element, in its difficulty of attainment. But it is not the only element. Even setting aside those cases (of no great practical importance) in which there is a natural scarcity not to be overcome by labor, the conditions of private property in many cases create an artificial scarcity, so to speak, for such persons as neither possess the commodities nor have the means for producing them. Thus the price of commodities goes beyond their cost price, in consequence of the ownership of the means of production by a comparatively small number of persons, whose competition does not go to the point of preventing them from securing a return on their capital.

So far as the individual is concerned, it makes no difference in the production of commodities whether their difficulty of attainment arises from a needed exertion of labor or from the conditions of private property. But, from the point of view of the community, these two fundamental causes of value are by no means the same. From this point of view, labor alone is an absolute objective sacrifice, in return for which an objective equivalent appears for the community in the commodities produced. But the subjective causes of value which arise from the conditions of property, while they inure to the advantage of some and the disadvantage of others, bring for the community neither an increase in its sacrifices nor an increase in its objective possessions. When the owner of a spring of water, by virtue of his right of property, sells the water to a thirsty soul for a price, the water, doubtless, has value; but the buyer has lost in value as much as the seller has gained. An objective new commodity has not been created; for the buyer would have quenched his thirst even if the spring had been free for all. Considerations of this sort justify the proposition that, for the community,

labor, and in fact socially necessary labor, as conceived by Marx, is the basis of value. Value in this sense, or social value as we may call it, is, then, a conception which we deduce from the proximate phenomena. But it is by no means, as Marx assumes, a conception which controls and determines the empirical forms of value. Marx's conception of value and of surplus value was a convenient introduction for his analysis of capitalistic production. It enabled him to make the analysis neatly, in a mathematical sense, and so was peculiarly effective for his practical purposes. But the facts of social life cannot be reduced to such a simple scheme; while the immanent social laws which Marx assumes to find in them are no more than hypothetical abstractions.

I conceive that political economy is an empirical science. The economic dealings of the conscious individual are its fundamental facts. From these, economic phenomena as they appear in the mass are to be explained. There being a large number of individual actions, the effects of some may serve to offset the effects of others. But other effects, again, are intensified, and bring about general phenomena, which, for the very reason that they are made up of a large number of individual actions, are subject to no rapid changes, and so possess a good degree of stability. Thus they become in a way independent of the will of the individual: they may even appear as forces controlling the action of the individual. In the flow of time they show such constancy that we may speak of "economic laws." This expression, while in strictness only figurative, is not open to objection, provided that it be not forgotten that the observed uniformities do not rest, like the law of gravitation, on some external force controlling the individual phenomena, but are simply the results of a number of individual acts, which, while doubtless reacting one on the other, yet are each independent. This is more especially the case with the laws of value

and price. Normal market value comes into existence through individual valuations which mutually affect each other. If every producer adds to his cost price a supplement proportionate to his capital, he does so not because misled by some subjective illusion, but because he thereby does his share in bringing about the actual division of the produce between laborers and capitalists. It is wrong to say that, in this process of adding the supplement, the capitalists always lose as buyers what they gain as sellers, and so as a body really gain nothing. For the laborers, it must not be forgotten, are in no position to add such an excess. Their wages are determined simply by the cost of production of their labor power. Thus we may reach, by the most trivial empirical means, and without any reference to immanent ideas or laws of evolution, the same conclusion as Marx's law of surplus value. It must depend upon the individual's temperament, and on his social point of view, whether he finds in this result a wonderful harmony of interests or a conflict which must lead to social revolution.

W. Lexis.

TENANCY IN THE UNITED STATES.

WHEN the census made it known that less than half of the families in the United States own the dwellings in which they live, the surprise that followed demanded explanations and the causes of the fact. Are the circumstances of a large portion of the tenants such that they do not want to own their dwellings, although able to do so, or does poverty, either absolute or relative to land and building values, prevent them from becoming owners? Here is a country of vast extent, whose population cannot yet be regarded as dense. Outside of cities and towns there is ample area to satisfy the keenest land-hunger; and the prices do not prohibit purchase to any but the poorest people, especially if it is borne in mind that about one-half to two-thirds of the price of the purchase may be represented by a mortgage.

The acre tracts that were sold in Illinois in 1887 brought $32.86 per acre, including buildings and all improvements. In Wisconsin, in 1893, the actual selling price per acre was $22.51. In Minnesota, in 1881, it was $10.03; and the price increased to $13.41 in 1891. The price per acre in Ohio is somewhat higher, and within the period of eleven years, from 1881 to 1891, ranged from $36.70 in 1891 to $47.29 in 1884, some coal deeds being excluded from the latter year. These prices represent actual sales of acre tracts of land, mostly composed of farms, as found recorded in registries of deeds and as summarized in reports of State officers. Doubtless the prices are a little higher than the prices of farm acres, for the reason that suburban acre tracts and some timber and mineral tracts are included; and these are worth more per acre than farms are worth.

To what extent acres can be bought, without paying

higher than ordinary prices, in such small numbers as poor men would be limited to, is somewhat doubtful, outside of suburban places. The average area of a farm seems to have reached the point at which it is economically adapted to our agricultural products and the methods of producing them. In 1870 the average area of a farm was 153 acres; in 1880, 134 acres; in 1890, 137 acres. Without more intensive agriculture and a change in the character of crops, it is doubtful whether there will be any considerable subdivision of farms; and, if this is so, farm and home tenants cannot practically become farm-owners without buying whole farms as they now exist. They would thus have to encounter an average value of $2,909, which they would have to meet with an equal amount of cash, or cash and mortgage encumbrance.

With regard to home-ownership, tenants can find areas in any limited size that is wanted, whether in the town or in the suburbs or in the rural regions. The average value of a home occupied by an owner, under encumbrance, in the United States, is $3,250; in cities of 8,000 to 100,000 population, $3,447; in cities of more than 100,000 population, $5,555; and, in the country outside of cities and towns of 8,000 people and over, $2,244.

But the poor tenant need not approach values as high as the average one, either for farms or for homes. Of the encumbered homes occupied by owners, 23.31 per cent. are worth less than $1,000; and, of the farms, 16.47 per cent. Suppose that a tenant were to set out to own a home worth $1,000. He would probably be able to acquire ownership by advancing no more than $333, a mortgage for $667 covering the remainder of the purchase price. The average rate of interest on home encumbrance is 6.23 per cent., so that the annual interest would be $42. This is two-thirds of the interest that the landlord of the home would receive at the same rate. Suppose that a tenant of a home of this value were to become its pur-

chaser. He has been paying the landlord $62 yearly for interest: now he pays him $42, and annually invests the difference — $20 — at 6 per cent. interest. By adding this amount of $20 annually to the principal, in the course of about twenty-one years the sum of the principal and the interest would be sufficient to pay the debt of $667. This illustration is given to show that home-owning is not the difficult achievement that some may suppose, if the site of the home is immaterial. If a man can save $333, and is able to take $20 out of his annual earnings and invest the amount at interest, it is possible for him to fulfil the conditions of the example. But, of course, a cheap home cannot be had everywhere; and lot values are high enough in cities to limit the choice of the poor, and even of the well-to-do. On the other hand, suburban rapid transit and cheap railroad fares have enlarged the field of choice to suburban regions where lot values are low enough to be within the reach of all but the very poor.

If account is taken of the sales of real estate, its market will seem active to one who thinks that real estate is not easily purchasable for want of purchasing power on the part of the people. The activity of the real estate market, as shown by conveyances in Massachusetts, has been ascertained for the ten years, 1880 to 1889. The conveyances were mostly by warranty deeds of titles in fee-simple, but some of them were by quitclaim deeds, usually given to remove clouds upon the title to land already in the possession of the grantee. In 1880 there were 37 persons of the entire population, on the average, to each deed made. The highest number of persons was reached in 1885,— namely, 39,— and the lowest in 1889,— 33 persons. Average for the ten years, 36 persons; or one deed annually to about seven families on the average, and one deed during the decade to about seven-tenths of a family. This is for a State that has a denser population per square mile than any other State in the Union except Rhode Island, and

denser than any nation in the world except Belgium and the Netherlands. The figures, however, do not indicate whether this activity in purchasing real estate is great among a very small fraction of the population or is pretty well distributed among the masses of the people.

The foregoing are the conditions under which 52.20 per cent. of the families of the United States are the tenants of their farms and homes. The farm tenants are 34.08 per cent. of the entire number of farm families; the home tenants, 63.10 per cent. of the entire number of home families. In cities and towns of 8,000 to 100,000 people the tenants of homes are represented by 64.04 per cent.; in cities of 100,000 people and more, by 77.17 per cent.; and in the country outside of cities and towns of 8,000 people and over, by 56.22 per cent.

The number of occupying owners of farms and homes is nearly large enough to stand for the number of land-owners. To make their number complete, there must be added the land-owners living in tenant families and the land-owners living in the families owning farms and homes, in addition to the owners of these farms and homes. On this account I would not increase the percentage of farm and home owners (the percentage of the total families being 47.80) by more than about two. This ought to be enough to account for the land-owners who do not own the farms and homes they occupy and who are speculators, old bachelors, widowers, and women whose homes have been broken up and who are boarding in tenant families. It ought to be large enough to include the widowed fathers and mothers living with sons and owning the old farm or home, the brothers and sisters living in the same family and owning land by common inheritance, and other land-owners, in addition to those who own the farms and homes which they occupy. If a person owns land, it is a matter of common observation that some or all of it is the site of his home, and that he does not own

other land unless he owns the farm or the home that he occupies. The merchant does not own his store and hire his home, nor does the lawyer or physician hire his home if he owns land. It cannot be very wrong, therefore, to regard the land-owners of the United States as equal in number to about 50 per cent. of the families; that is to say, there is one land-owner in every two families, on the average.

The proportion of farm and home tenancy in the United States is made high, not only by the South, where most of the colored people are tenants, but quite as much by New England, New York, New Jersey, and Pennsylvania. The farm and home tenant families are 58.92 per cent. of the entire number of families in the Eastern States (North Atlantic) above mentioned; 60.63 per cent. in the Southern States on the Atlantic Coast (South Atlantic); 57.89 per cent. in the remaining Southern States (South Central); 41.97 per cent. in the Western States, including and extending from Ohio westward to and including Kansas, and including all of the States northward of this line (North Central); and tenancy is represented by 45.83 per cent. in the Rocky Mountain and Pacific Coast regions.

With respect to farm tenancy the influence of the South upon the average for the United States is very great, because in the South Atlantic States the tenant farmers are 45.84 per cent. of the total number of farm families, and in the South Central States 48.27 per cent.; while in the North Atlantic States they are 21.45 per cent., in the Rocky Mountain and Pacific States 18.91 per cent., and in the North Central States 26.49 per cent.

The high home tenancy of the South is less influential upon the average for the United States than the farm tenancy of that region is. In the South Atlantic States 73.11 per cent. of the total number of home families are tenants; in the South Central States, 70.78 per cent. The average in the United States is 63.10 per cent.; and this

is exceeded in the North Atlantic States, where the percentage is 67.02. If the low degree of home tenancy in the North Central States — namely, 53.66 per cent.— were as high as it is in the North Atlantic States, fully two-thirds of the home families would be tenants. The Rocky Mountain and Pacific States have a degree of home tenancy — 55.95 per cent.— a little higher than that which is found in the North Central States.

Home tenancy has reached a high figure in some of the wards of the large cities. In the twenty-eight cities having a population greater than 100,000 there are 537 wards,— counting the District of Columbia as one,— and in these cities each of 77 wards has home tenants that are more than 90 per cent. of the entire number of home families. Boston has a ward with tenancy as high as 96.98 per cent.; Brooklyn, 93.66 per cent.; Chicago, 95.06 per cent.; Cincinnati, 96.14 per cent.; Cleveland, 93.57 per cent.; Denver, 94.88 per cent.; Kansas City, 96.72 per cent.; Pittsburg, 96.81 per cent.; St. Louis, 96.76 per cent.; and San Francisco, 97.95 per cent., this being a Chinese district.

As might be expected, New York exceeds all other cities with respect to home tenancy. In 22 of the 24 wards of that city, at least 91.56 per cent. is reached; and the highest percentage is 99.20 in the Tenth Ward, the average for the city being 93.67 per cent. It is New York in the legal sense which has this high percentage of home tenancy. The "Greater New York" should more fairly be taken into consideration. In New York city and the nine counties in New York State and New Jersey that are neighboring to that city, 83.54 per cent. of the home families are tenants. In that city and in nineteen cities having a population greater than 8,000, and situated in New York State and New Jersey,— all of the nineteen by interest and situation virtually parts of New York city,— the home tenant families are 86.37 per cent. of the entire number of home families. A percentage somewhere be-

tween this and that of the ten contiguous counties is more fairly the percentage to represent the home tenancy in the New York metropolitan district, say 85 per cent. Although the percentage representing New York within its legal limits may seem high, yet it is lower than the Berlin percentage. In 1890 the census of that city found 96.65 per cent. of the families living in hired homes.

Home tenancy in "Greater New York" is not far above what it is in most of the other large cities of the country. Boston is next to New York, with 81.57 per cent.; Brooklyn next, with 81.44 per cent.; Jersey City next, with 81.20 per cent.; and Cincinnati fifth in order, with 80.82 per cent. Among the large cities, Rochester has the least home tenancy,—namely, 56.02 per cent.; Milwaukee is second, with 57.87 per cent.; Detroit third, with 58.33 per cent.; and St. Paul fourth, with 59.80 per cent.

A high degree of tenancy is also found in some of the smaller cities. Of the 420 cities and towns having a population of 8,000 to 100,000, eighteen have home tenancy represented by percentages above 80, the highest one being 89.84 per cent. for Birmingham, Alabama. Eleven of the eighteen cities are in the South, and five in New England. The lowest tenancy found in the 420 cities and towns is in Watertown, Wisconsin, where it is 29.01 per cent. Next comes Dunkirk, New York, with 31.50 per cent. Among the 420 cities and towns there are twelve that have a percentage of home tenancy below 40, all of them except Dunkirk situated in the West, and seven of them in Michigan and Wisconsin.

Farm tenancy in Europe is about the same as it is in the United States. In Germany 34.31 per cent. of the farms are worked by tenants, and in Holland 39.60 per cent. In several countries the tenancy is less than in the United States,—33.02 per cent. in Belgium, 28.94 per cent. in France, 31.82 per cent. in Norway, 28.17 per

cent. in Portugal, 17.32 per cent. in Sweden. But in Denmark the percentage is as high as 66.09, in Italy 55.19; and in the United Kingdom it must be nearly 100.*

Thus it appears that in the matter of farm tenancy this country makes no fine comparison with Europe, notwithstanding the fact that we have had land enough to give us all a farm.

Although tenancy has reached a high figure in this land-abounding country, there is yet no concentrated landlordism. There is only one millionaire family that is conspicuous as a landlord, and the large areas owned by individuals and companies are mostly cheap and unimproved land. The possibility of acquiring title to vast tracts of land while the price is cheap has attracted the investments of wealthy foreigners to no great extent; and, beyond one absentee landlord, owning 40,000 acres of farms in Logan and Sangamon Counties, Illinois, no important foreign landlord is known to the public. A newspaper writer has made a list of twenty-four citizens and companies of citizens of the United Kingdom who own 17,000,000 acres of land in the South and West. Hardly any of the land is improved or is occupied by tenants, and the prospect that a considerable portion of it will be occupied by tenants is exceedingly remote. All together, it can be worth scarcely more than $50,000,000 to $75,000,000.

Since one-half of the families of the United States are landless, it becomes desirable to know whether the fraction is an increasing one. With respect to farm tenancy, it may be said positively that there has been an increase since 1880. The census of that year found 25.56 per cent. of the farms cultivated by tenants. In 1890 34.08 per cent. of the farm families were tenants. The proba-

*These European statistics are taken from Mulhall's Dictionary of Statistics.

bility is that the percentage for 1880 was reckoned too small. It is supposed that the enumerators neglected to report many tenant farms as separate farms, as in the case of a tenant farm contiguous to another farm cultivated by the owner of the leased farm, both farms at some time previous having constituted one farm under the cultivation of its owner. The tenant farm being cultivated on shares and the crops being stored in the buildings of the farm cultivated by the owner, it was a natural mistake on the part of the owner and enumerator to return the crops as for one farm, thus losing the tenant farm. The mistake might easily happen in the cotton region of the South.

Statistics of farm tenancy were taken in two ways in the census of 1890 one investigation having the farm as a unit, as in 1880, and the other having the family. For the reason above given, and also on account of a large amount of supplementary work, the latter investigation is regarded as the more accurate one; but in a comparison with 1880 the former may be more fairly used. The investigation having the farm as the unit understates the degree of farm tenancy in both censuses; but presumably there is little error in the reported increase of farm tenancy, which was 2.81 in the percentage, or from 25.56 to 28.37 per cent.

There is no direct proof that home tenancy is increasing, but that it is doing so is a legitimate inference from other facts. Since the first census in 1790 an increasing proportion of the entire population has been found in cities and towns of 8,000 population and over. This population was 3.35 per cent. of the total in 1790, 12.49 per cent. in 1850, and 29.20 per cent. in 1890. This urban population will have an increasing importance for a long time to come; it has reached as high a figure as 69.90 per cent. of the total population in Massachusetts and 78.89 per cent. in Rhode Island. Now, home tenancy is related to urban growth. As before stated, outside of

cities and towns of 8,000 population and over, the home tenants are 56.22 per cent. of the total number of home families; in cities and towns of 8,000 to 100,000 population, 64.04 per cent.; and, in cities of 100,000 and over, 77.17 per cent. The inference is that home tenancy will increase in the whole country, as it undoubtedly has done in the past, unless it decreases, outside of cities and towns of 8,000 population and over, sufficiently to counterbalance the urban increase of tenancy. If we allow for 1880 the proportions of home-hiring families that are found in 1890 for cities and towns of 8,000 people and over, and for the entire country, the percentage of home-hiring families outside of these cities and towns must have been 58.09 per cent. in 1880. In 1890 the percentage was 56.22, so that the degree of home tenancy in the United States need not have diminished in 1890, if we allow a decrease of 1.87 in the home tenancy percentage within the decade, outside of the class of cities and towns described, and stationary tenancy within the cities. But it would be too much to assume the greater decrease required to balance the undoubted urban increase of tenancy; for how could non-urban tenancy have come to be as high as it must have been, a few decades ago, under the assumption? It must then have been as high as the urban tenancy, and that is absurd.

It has been much easier to ascertain that a little over one-half of the families of the United States do not own their dwellings than it is to find adequate explanations of the fact. It is worthy of remembrance that we have been a migratory people, shifting from one occupation to another, and, as people in a new, rapidly developing country are likely to be, somewhat wanting in fixity of purpose and of aim in life. A restless, unsettled people is not to be tied to land. The ownership of a home hinders migration, and civilization has not yet proceeded far enough to do away with migration as a means of bettering one's con-

dition. To the workingman, home-owning may even be a positive disadvantage in his dealings with his employer, or in the event of better terms offered in another place. Generally, real estate is not readily sold without sacrifice; and, if he owns his home, he will not readily migrate. A workingman may find himself out of employment at any time; and, if he owns his home under mortgage, he may be unable to pay the interest when due, and so lose some of his savings through foreclosure. The absence of permanent local interests, the uncertainties of employment, of new undertakings in trade, and of ventures in a thousand and one directions, forbid men to own their homes.

The conditions are aggravated by the large element of the employed among persons having gainful occupations. In 1860 the employed were 59.48 per cent. of the persons who had gainful occupations; in 1870, 67.33 per cent.; in 1880, 66.66 per cent.; and, in 1890, 65.88 per cent. Some estimates had to be made in order to arrive at these figures, as in the case of bakers and blacksmiths, all of whom do not belong to the employed. However, after admitting that there is some error in the conclusions, the best evidence that we can get on the subject indicates the importance of the employed class in the problem, with its possibilities of lack of work and uncertainty of work, and consequent reluctance to buy immovable property that is not readily salable without sacrifice.

While there may be a spreading feeling among the people that they must hold themselves ready to migrate, as a matter of fact interstate migration has been slightly on the decrease since 1870. In that year 23.25 per cent. of the native population were born out of the State in which they then resided; in 1880, 22.07 per cent.; in 1890, 21.55 per cent. While the general tendency has been a decreasing one, because of the diminishing native emigration westwards, yet the decrease was only 1.70 in

the percentage in twenty years. In the North Atlantic States the percentage has slightly increased. Whatever the normal tendency may be with respect to the extra-State birth of natives, the percentages that stood for it at the time of the last three censuses must be regarded as high ones.

Apparently, the causes of the diminishing birth and marriage rates are among the causes of the high degree of tenancy and of the presumable increase. Young men are taking a longer time in preparation for life-work than they used to do, and a larger portion of them are doing this. Then follows the lapse of time sufficient for them to become "settled down," which, in the professions at least, is a period of considerable length. Then the home standard is becoming higher, just as the standard of living has become higher. Men and women who occupy respectable positions in their communities will not own their homes until they can reach the standard established by the dictates of respectability, and this means a more costly home than comfort requires. Everywhere we notice that the higher standards of living and of respectability are demanding more time in preparation for life and increased expenditure of income, are postponing the time of marriage and reducing the birth-rate, and, along with other results, are postponing, if not preventing, the ownership of homes.

The census of 1890 has shown that 39.27 per cent. of the male home-owners of the United States are fifty years of age and over, and that a man who is to become either the owner of his home or the head of a home tenant family must live until he is nearly forty-five years of age before the chances are even that he will be an owner.

But neither the rising standard of living and of respectability, nor urban growth, nor restlessness, nor the uncertainties of industrial life are enough to make 63.10 per cent. of the home families of the United States hire the

dwellings that they live in. Poverty must be allowed to have some influence upon the result,—not absolute poverty, necessarily, but at any rate poverty that is relative to home values. There must be some very strong evidence that circumstances alone, apart from poverty, are sufficient to place nearly two-thirds of the home families of the country in hired dwellings. Land values in cities stand in the way of home-ownership, because these values are high and demand buildings correspondingly costly. It would be an unwise proceeding to buy a lot for $1,000 and build on it a dwelling worth only $500. Doubtless many poor city families could go into the country and live much more comfortably than they do in crowded tenements; but they prefer to live where they are. Until we can find out statistically why each family hires the home that it lives in, we shall have to be content to explain the high degree of home tenancy in this country by saying that it is due to poverty (both absolute and relative to home values), to a rising standard of living, and to the uncertainties of the future.

When we turn to farm tenancy, it is a clear case of poverty and nothing else; and those who have travelled throughout the United States and seen the circumstances of farm tenants will agree that it is an absolute more than a relative poverty. The farm tenants of the South, mostly negroes, are in the lowest depths of poverty, although without any extraordinary industry they could become owners of small farms. The Southern farm conditions may be concisely described by the following extract from a paper prepared by the writer:*—

Before the Civil War the agricultural land of the South was owned and cultivated in large areas by white planters, who were wealthy and independent. Their purchases and sales were made through agents and brokers, whose accounts showed balances in favor of the planters

* *Annals of the American Academy of Political and Social Science*, September, 1893.

sufficient to meet all purchases made in their behalf, and all drafts made by them for cash. When a planter wanted sugar, coffee, clothing for slaves, and other supplies that could not be produced on the plantation, they were bought by the agent, and their cost charged against the balance in his hands remaining from sales of cotton or other products. . . .

A devastating and exhausting war, in which nearly all of the able-bodied white men of the South were engaged, made an immediate and radical change in the agricultural system of that region. . . . Large plantations could not be cultivated as of yore for want of equipment, and a subdivision into tenancies was the only course. The ex-slaves were still there, unprovided, as many of their former masters were, with food sufficient to last until the harvesting of the next year's crops.

So it happened that tenant farming largely replaced the old system. Farmers who owned the farms that they cultivated, and landlords alike, had to obtain from merchants the supplies of food, clothing, and farm equipment that were needed, and these on credit, giving in return pledges of the crop to come, out of which the debts must be paid. The tenants, even less prepared to choose, adopted the same system, and lived on their interest in the future crop. . . . Every crop of cotton is mostly consumed before it is harvested; and after the harvest the farmer, owner, or tenant has to place a lien on the next year's crop, often before the seed goes into the ground. . . .

The agricultural land of the cotton States has little sale. Merchants will not accept it as security for debt unless they are compelled to do so, when crop, mules, cattle, and other personal property are insufficient. This is one reason why mortgages on Southern farm land are so few. . . . The blacks prefer a tenancy to selling their labor for wages; and in some regions, at least, the white owners who cultivate their farms find that only the inferior laborers can be hired because the superior ones prefer tenancies. As the planters become independent of merchants, they are unfriendly to these tenancies, but, in some instances, have to grant very small ones in order to hold the services of the blacks, who, under such circumstances, work for wages during a part of the year on the plantation cultivated by their landlord. If the white landlords arrive at independence from debt before the black tenants do,— as it may be assumed that they will,— if either class is to improve, it seems likely that the blacks will see a service for wages encroaching upon the tenant system. . . .

The plantation owners, most of whom are landlords, often live in towns, having abandoned their plantations to irresponsible tenants, who care to work only indifferently and for a bare subsistence of the

poorest sort. A tenant whose crop by chance more than suffices to meet his obligations will pick enough cotton to discharge his debts to the landlord and the merchant, and abandon the remainder, knowing that he can live on the next crop until it is harvested. . . . The merchant who has a lien on his share of the crop pays his taxes, buries his wife or child, buys him a mule if he needs one, and feeds and clothes him and his family.

Farm tenants would be laborers on farms or elsewhere if they were not such tenants. As far as they are concerned, their tenancy, outside of the South, is a distinct advantage. The requirements of tenancy and of self-directed labor are educational, and the tenant is better off as a tenant than he was or would be as a farm laborer. But, as compared with ownership, farm tenancy represents a loss to society. Its agriculture is inferior, and the independence of the owner is poorly replaced by the tenant proprietorship.

Farms are available for tenant proprietorship for various reasons. Some of the older farmers have accumulated sufficient property to enable them to move to towns; and this they desire to do for the purpose of educating children, and also because they, and especially their wives and children, find town life more agreeable than life on a farm, while it may increase their social standing. This has taken place more or less throughout the entire North. In these cases the farmers leave their farms in the hands of their sons, or persons who have been farm laborers, as tenants.

The result of inquiries in some quarters is that the increase of farm tenancy is a reaction from the cultivation of too large farms. The older farmers find that the large farms make too great a demand upon them after sons, grown to manhood, have gone to towns or else possess farms of their own; and, if an entire farm is not divided into several tenancies, a portion of it is placed in the possession of a tenant, while the owner continues to work the other portion himself.

It is alleged in some parts of the West that foreclosure of mortgages accounts for the increase of farm tenancy; but this has not been established. It is true, however, that foreclosures on farms in Illinois, Michigan, Minnesota, and New Jersey are from one-third of one per cent. to one and one-half per cent. of the number of mortgages on farms, every year; and, if these farms upon which mortgages have been foreclosed become and remain tenant farms, the foreclosures are sufficient to account not only for much of the farm tenancy, but also for the entire increase. This is the possibility: it may not be the fact.

Then there is a migration of farmers' sons from farms to towns. Education is spoiling sons for farm life, and they prefer the more genteel, exciting, and social life of the town, even with small earnings. People do not go from town to farm. In the movement of population urbanward, the resulting readjustment that must be made with respect to farm proprietorship gives farm tenancy a place which to a great extent might otherwise be filled by the abandonment of farms. Before farm tenancy will be reduced there must be considerable change in the drift townward, and increase in the profits of agriculture. There is little in prospect that will reduce farm tenancy in this country, unless the immigration of agriculturists should be turned into the South. The economic instincts of the immigrants are superior to those of the negroes and their landlords in the South, and this would make ownership by the cultivators encroach upon the present tenant system.

Nor is there any prospect that home tenancy will be reduced, nor even its increase arrested. It is popularly supposed that home tenancy would be greater than it is, were it not for building and loan associations; but the supposition is largely erroneous. Through an extreme perversion of the fact, Philadelphia, on account of its building and loan associations and single dwellings, has become known

as the "city of homes"; that is, of owned homes. The borrowers from the local associations are 10.77 per cent. of the number of families in the city, and the home tenants are 77.24 per cent. of the total home families. Chicago, a city of the same size, has borrowers that are 12.55 per cent. of the families,— about the same as in Philadelphia; but the home tenant families are only 71.27 per cent. of the total. Cincinnati has a very extended building and loan association business, for a large city, the borrowers being 21.95 per cent. of the families; whereas its home tenancy is represented by 80.82 per cent., which is a high percentage. In Pittsburg the borrowers are 15.04 per cent. of the families, in Buffalo only 4.99 per cent.; yet in the former city the home tenants are represented by 72.11 per cent. and in Buffalo by the very low percentage of 60.03. Contrast Lancaster, Pennsylvania, with York in the same State. In Lancaster the borrowers are 10.36 per cent. of the families: in York they have the extraordinarily high percentage of 50.93; that is, half of the families in York are borrowers from building and loan associations. Yet, with this remarkable difference between York and Lancaster, the home tenancy differs but little, being 62.90 per cent. in Lancaster and 57.77 per cent. in York.

It is true there are some coincidences between a low degree of home tenancy and a large amount of business done by building and loan associations. These coincidences are found in Allegheny, Indianapolis, Pittsburg, and Rochester, among the large cities; but the fact that other cities attain a low degree of home tenancy without the presence of building and loan associations shows that there may be other causes than this for the result.

There are twenty-eight cities having a population of 100,000 and over. In those that have a percentage of home tenancy above the average for the twenty-eight cities, 16.57 per cent. of the home families own their

homes; and the borrowers from local building and loan associations are 5.26 per cent. of the entire number of families. On the other hand, in the cities whose tenancy is below the average, 31.56 per cent. of the home families own their homes; and the borrowers from local building and loan associations are 10.02 per cent. of the total families. In the class of 420 cities and towns having a population of 8,000 to 100,000 there are many whose tenancy is above the average for the 420. And in these cities and towns the home-owning families are represented by 26.79 per cent., and the borrowers from building and loan associations by 5.68 per cent.; while in the cities and towns whose tenancy is below the average the home-ownership is 45.19 per cent., and the borrowers 9.88 per cent. On the whole, it seems probable that building and loan associations have promoted home-owning beyond the point that would have been reached without them, but not much beyond, because of the frequently apparent want of relationship of cause and effect between building and loan association business and home-ownership.

In the large cities there is a relationship between home-owning and single dwellings, but the prevalence of single dwellings can hardly be regarded as a cause of home-owning. It is rather an effect. This relationship, however, is not without exceptions. In San Francisco there are 1.11 families to a dwelling, in Philadelphia 1.10, and in New Orleans 1.13,—all low averages; yet in those cities home tenancy is represented by high percentages. Still, all cities considered, the general fact is that there is a small average number of families to a dwelling where home tenancy is relatively small.

It is not clear that the custom of paying ground rent instead of buying land has had any considerable effect in promoting home-owning. This custom is prevalent in Baltimore and Philadelphia; and in both cities the busi-

ness done by building and loan associations is of large proportions. In both cities, also, the number of families to a dwelling is small. Yet, under these conditions, home tenancy is represented by a larger percentage in Philadelphia than one would expect to find,—namely, 77.24 per cent.; while in Baltimore the percentage is 73.94. Both percentages are higher than those representing Allegheny, Buffalo, Chicago, Cleveland, and Pittsburg; and the percentage for Baltimore is not materially lower than the percentages representing most of the other large cities. Tenancy in Philadelphia is only 4.33 in 100 families lower than it is in Boston, where there are 1.70 families to a dwelling, where there are no ground rents, and where the borrowers from building and loan associations are only 2.17 per cent. of the number of families in the city; and, next to New York, Boston has a higher degree of home tenancy than any other large city in the country.

Ground rents make home prices cheaper than they would otherwise be, and thus place home-ownership within the command of persons who have not sufficient wealth to buy their homes if they must buy land as well as dwelling. As far as home-owners are concerned, in one respect the ground rent custom of Baltimore and Philadelphia is the single tax theory in practice. A man intending to own his home in those cities can obtain a lease of a lot upon contract to pay the interest on its value for a term of years. Home-owning in those cities is, therefore, independent of the purchase of land, if one chooses to make it so. This makes the average value of a mortgaged home in Baltimore very low; namely, $2,270, which is lower than the average for any other of the cities containing 100,000 people and over, except New Orleans. The average for Philadelphia, however,—$5,305,—is above the average for Chicago, which is $4,623, and is above the average for Buffalo, Cleveland, Pittsburg, and St. Louis, while being little below the average for the twenty-eight

cities of this class. The large cities that have a percentage of home-ownership above the average for all, have owned and encumbered homes that are worth on the average $4,248 apiece; while, in the cities whose ownership is below the average, each owned and encumbered home has the average value of $7,552. Among the 420 cities and towns of 8,000 to 100,000 population, those whose home-ownership is above the average have owned and encumbered homes worth $2,931, on the average. In the remaining cities and towns home-ownership is below the average, and the owned and encumbered homes average $4,372 in value. The ownership of a home necessarily depending upon the wherewithal to buy it, there must be something more than a coincidence in the association of low home values with a high degree of ownership in the cities of the country.

There is little reason for believing that the ownership of homes can be promoted to any considerable extent by any scheme. It seems to reach the point which the prospects and distribution of the wealth of the people permit it to reach, whether there are ground rents or not, whether there are building and loan associations or not, and whether there are savings-banks or not. It is a question of land and building values, and of prospectively permanent local interests, whether the people own their homes or hire them. This statement, however, is not intended to cover the colored people in the South, most of whom, without great thrift and labor, could own homes and farms. One or both of these causes — wealth distribution and prospects — have made home tenancy less in the North Central States than elsewhere in the country, and have made a high degree of tenancy in the old East, with its cities and concentrated industries.

George K. Holmes.

Washington, D.C.

A STANDARD OF VALUES.

THE labor and accuracy with which the standards in weights and measures have been established are in marked contrast with the constant fluctuation of values, not merely in themselves, but in our estimate of them. So far as traffic is concerned, the exactness attained in other forms of measurements counts for little, so long as the expression of values is so variable. Scientific and constructive purposes are admirably subserved by our accurate estimates of quantity; but the moment we deal with economic interests, to which so much of our labor and attention is directed, our results are grossly unequal and the occasion of not a little loss, injustice, and bitterness of feeling.

We are passing through a period in which this deficiency and diversity of standards in value have been severely felt. It is well for us to know how far this evil is capable of correction, what are the limits of the disasters which accompany it, and what is the immediate practical reduction of them. This research involves the three questions: Is a standard of values attainable? What are the evils which arise from the want of it? What is the true policy of the hour?

The answer to the first question seems to be that no standard of values is possible. We are situated in reference to the constant fluctuation of values as we should be in striving to measure the movements of a dozen bodies in empty space. We could determine their change of place in reference to each other, but we should have no fixed point from which we could measure their single or their collective departure. We could not, with accuracy, apportion to each body its own part in the motion which varied their relations to each other. So, in reference to values,

we can observe their changes among themselves and assign conjecturally the part taken in them by each commodity; but our conclusions are not secure, they stand for no absolute fact. The alteration of two values in exchange with each other may be due to a change in either of them or in both of them, or in both of them in a great variety of ratios.

It has been proposed, in search of a proximate standard, to take at any one time a large number of leading commodities, say two hundred, to see what quantities of each a given sum, say one hundred dollars, will purchase, and at a later period to express the same quantities of the same commodities in money, and divide that amount by 200×100. The quotient, say ninety cents, would give a unit which would have the same purchasing power in reference to the two hundred articles that was given in the previous period by one dollar. Such a method would serve to disclose some of the fluctuations which had taken place, but would not give a perfect standard of correction. It would indicate the collective change, not the individual change, of the commodities considered.

In practice we wish to know and correct individual changes, not collective ones. No man wishes to purchase a given quantity of two hundred commodities. He wishes to purchase a certain quantity of one, two, or three commodities. In reference to such a purchase, he might be worse off, with his new unit of ninety cents, than with his old unit of one dollar. The articles he desires may be those in the two hundred which have risen in value, and he now suffers the farther disadvantage of purchasing them with a reduced unit. Even if all articles instead of two hundred were embraced in our estimate, we should not have escaped this embarrassment. We should still be open to variable gains and losses according to the commodity bought.

To return to our comparison of bodies in space, what

we should settle by such an estimate would be equivalent to fixing the centre of gravity of the entire system, and by no means equivalent to measuring the movement of any one body in reference to any other body. A standard of value so won could not be absolute, any more than the centre of gravity could remain at one point while the bodies were shifting their positions among themselves. Our standard would simply be an average of variations, and that between commodities of very unequal importance in the enjoyments of different persons.

A method somewhat similar is to compare the purchases of an average household in the supply of its usual wants for a given time at different periods, and determine the unit of value by an equivalent purchasing power in the two cases. But this method is open to the same difficulty in a little different way. We should have secured an equality of advantage between those whose wants are alike in kind and quantity, but should have settled nothing for those who go into the market to purchase in all directions, quite at random in reference to each other. Our proposed corrections in the standard of value have no theoretical accuracy, no practical adequacy, and are so cumbersome as to be unavailable. There is, so far as we can now see, no possible standard of values.

What are the measures of the mischief arising from this fact? If we had a fixed point from which all fluctuation in value could be determined, we should have the first condition, but only the first, toward accurate results in the interchange of commodities. We should still be unable to settle and to express the exact state of the case in connection with any article undergoing transfer. Take such a product as wheat. The price never is, except by accident, adequately made. It undergoes constant fluctuations which express very variable opinions as to the supply and demand. The relation of these two terms, supply and demand, it is impossible accurately to define. If,

therefore, we were in possession of a point from which to measure our economic distances, we should still lack a point to which to measure them. In a machine of a hundred wheels, it matters little, so far as exact results are concerned, to correct the running of one of them, if the remaining ninety-and-nine run loosely. The sooner we recognize the fact that economic laws express real tendencies, but tendencies so modified by the circumstances under which they take effect as to be never perfectly fulfilled, the more useful our conclusions will be.

If, then, we are dealing with estimates to which, from the nature of the case, accuracy is impossible, what is the extent of the evils arising from a variable standard of values? These evils may be very great or very slight according to the rapidity of the change or threatened changes in the standard under consideration. Rapid fluctuations which act directly on the hopes and fears of men are often very disastrous. Imperceptible appreciation or depreciation, which affects the currents of business simply as a natural force, is of slight moment. Rapid and disastrous fluctuations have arisen almost wholly from some change or threatened change in financial policy, from some interference with the current standard of value. Men have taken alarm at their own lines of action, have come to distrust each other, and so have carried disturbance, unreasonable demand, sudden arrest, into all forms of business activity. The effect of the inevitable variations in standards of value from natural causes has been very trifling compared with the effects which have followed from the manipulations to which these standards have been subjected.

Thus the losses of the past three years in this country are not to be ascribed, in any important way, to the appreciation of gold or depreciation of silver. These, as simple facts, would have been relatively harmless. They are to be referred to the fear — a fear not altogether

reasonable, but fear is not wont to be reasonable — that the standard would be shifted as the result of legislation from gold to silver, that a violent, convulsive change would find its way into our financial policy.

The great financial disturbances in production have arisen in a similar way from the fear that the standard was about to be lost, not from the defectiveness of the standard itself. Discussion, as in the present instance, may have attached to the adequacy of the standard; but that discussion has been a diversion of attention from the real danger,— the possible change or loss of standard.

The one lesson of incomparable more moment than all other lessons taught us in the history of finance is that confidence between man and man, permanence of purpose, is the primary and essential term of safety in the transfer of values. Changes in values themselves sink into insignificance in comparison with changes in men's action concerning them.

Yet the question returns, What are the effects on production of those slow, imperceptible changes to which any standard, as that of gold, is subject? That these variations are, in the case of gold, slow and imperceptible follows, theoretically, from the enormous amount accumulated of that metal in coin, nearly four billions, and the additional amount in the arts; and, practically, from our inability to decide whether there has or has not been, in the last twenty years, any appreciation.

Suppose the standard to be undergoing slow depreciation, how will the fact affect production? In the great mass of transactions no appreciable results would follow. They take place in short periods. They come in and go out at the same door. There is no sense of loss or gain. In most lines of production, even the industrial cycle is too short to disclose any slight variation. If it were disclosed, it would simply appear in the line of enhanced normal profits, which, however, would be found unsubstantial the moment they were expended in purchases.

Business tends more and more to rapid movement, and this rapidity robs the slow changes under consideration of any important consequences. In the case of indebtedness extending over any considerable series of years the creditor would be at disadvantage and the debtor at advantage. Some are ready to say that a standard slowly depreciating is not undesirable, because of the send-off it gives to business. As this impulse is, however, essentially illusory, not much importance can be attached to it.

If the standard is slowly appreciating, the results are reversed. Business, if it extends over any considerable period, seems to suffer slight constriction by an unfavorable change of prices. But, as the result is only apparent, and would not be perceptible unless the appreciation was comparatively rapid, too much significance, we think, has been attributed to it. The hardship would now be transferred, in delayed payments, from the creditor to the debtor. The unavoidable losses in a change of standard lie between the parties to long transactions. There are two mitigating circumstances. Between persons simply, these relations of long credits are undesirable, and may well be narrowed in. Leases of a hundred years, lifelong loans, are worms at the root of production to be exterminated. In the case of bonds and stocks, debts owed by the public and by corporations,— the great mass of relatively permanent indebtedness,— the losses of appreciation are spread over a broad surface, fall on those comparatively able to bear them, give no check to business, and are not the occasion of any great evil. In the case of the personal debtor he owes nine parts out of every ten of the hardship which falls to him to the insecurity of loans, to the mischievous change of standards, and not to their appreciation. If he would give his entire attention to these two considerations, certainty of payment, payment under the implied conditions of the contract, his trials would be so greatly reduced that he would soon

forget to concern himself about the impalpable consequences of appreciation.

The third question we proposed, What is the true policy of the hour? becomes readily and certainly answerable, if what we have said is correct. It is incomparably wiser for us to hold fast to the best attainable standard than it is to awaken the fears incident to a possible change of standards, or to struggle for an ideal scheme beyond our reach. Indeed, this struggle subserves scarcely any other purpose than to call out these fears.

To throw our standard of value into the political arena to be fought over there is to plunge into a bottomless morass, merely because the highway is not perfect. Theoretically, we may discuss, if we will, the advantages respectively of bimetallism and monometallism. Practically, we must choose between gold and being forced by a series of disastrous shocks into the acceptance of silver as our standard. These two questions, the theoretical one and the practical one, should be carefully kept apart, and all the more as a doubtful theory may easily be made the means of drawing us into a plain, practical mistake.

Theoretically, we may concede that bimetallism deals with a real tendency, and traces its operation correctly.

Two metals of nearly equal value in the coin they have furnished to the currency of the world would, if they could be successfully yoked together, furnish a broader, more stable foundation of values than either of them alone. If the tendency of the two to alter their relation to each other did not exceed certain narrow limits, the fluctuations of one metal would be corrected in part by its connection with the other metal, and the joint standard would be correspondingly firm. As the weight of the body in walking is thrown first upon one foot and then upon the other, the footstep planted alternately to the right and the left of a straight line, so the pressure of a currency with a double standard might be subject to alter-

nate transfer, giving each metal in turn, by a relaxation of demand, an opportunity to recover its position in the accepted ratio.

There is at once a charming simplicity and aptness in this theoretical adjustment of the two metals, which give the theory a strong hold on the mind, make us desire the experiment, and lead us to cherish the hope that the results would justify the ingenuity of the device.

In entertaining the theory as a theory even, there are some things which should give us pause. Our yoke-fellows must be, by natural tendencies, somewhat inclined to draw together, or the scheme would certainly fail. It is not all degrees of disposition to separate which the union would correct, but only comparatively slight and secondary ones. In the comparison just used, the movement of a man is even and firm, if the footsteps to be made, on either hand, are regular and at slight distances, but is first violent and then impossible, if the alternate positions are wide apart. Who can assure us that the tendencies of gold and silver, united in no common terms under supply and demand, will remain so near each other and so parallel to each other as to make the proposed corrections arise in due order? No one can give us this assurance. There are a good many things which go to show that the probabilities of its actual realization are slight. In the bimetallic experience in France one or the other metal held the foreground for long periods, and the corrections took place but obscurely or not at all. Our own large and protracted purchases of silver seemed to have had but little effect on its declining value. The tendency was quite too strong for our control. Moreover, there is the constant error of economists, ascribing too immediate and exact action to the tendencies they have under consideration. For example, the disasters of our silver purchases were much longer in coming than the monometallist had anticipated. We find in financial movements at once

an inertia and a momentum which cause them to fall behind and break over the lines we assign them. The fundamental consideration in bimetallism is one of much uncertainty, whether the corrections of a double standard are proportioned in power to the circumstances which they would be called on to control. No one can speak with authority on this essential consideration.

The uncertainty of our reasoning is well illustrated by the very different interpretation of existing facts by the two schools. The monometallist holds that there is no sufficient proof of the appreciation of gold; the bimetallist believes that there is undeniable proof. The prices of a large number of articles have fallen collectively; some, twenty-eight per cent. in twenty years. The bimetallist thinks this a plain indication, establishing the appreciation of gold: the monometallist meets this claim by counter-facts and by causes which he deems sufficient to explain the depreciation of values in certain commodities.

Services of all sorts, which constitute from one-third to one-half of the sum of values, have risen, not fallen in price. Scarcity values, as furs, ivory, works of art, lumber, fuel, business rents, still show an upward tendency; and these, added to services, yield fully a half of all values. Those commodities which have sunk in value stand connected directly or indirectly with the improved productions incident to invention. In agriculture the signal fall in the price of wheat and cotton is clearly referable to the relation of supply and demand, and is associated with other important farm products, like oats, corn, pork, which have retained their prices. If, then, we cannot agree on a fundamental movement in values, we have small encouragement to trust ourselves to a theory which involves the adequate and automatic play of still more forces and more subtile ones.

If we were to grant, in general, the tendencies claimed by the bimetallist, and were to entertain the hope that they

would prove adequate to meet many variations in value, the question would still return, To what state of affairs would they be applicable? If gold and silver were both to appreciate or both to depreciate in value, with a movement on the part of neither much in excess of that of the other, the change would be retarded, and greater stability thereby secured. In compensation of this advantage, if the changes in value were in opposite directions and considerable, or even in the same direction and strongly divisive, the currency resting on the two metals would be subject to fluctuations creating alarm, and liable, as in our own recent experience, to issue in extended disaster. The bimetallist, like one riding two horses, purchases the possibility of success by the possibility of violent overthrow. In a field in which fears are more disastrous than unfavorable facts this becomes a grave consideration.

But the ideal character of bimetallism is still more apparent when we turn our attention to the very general acceptance it must receive before it can promise even to itself a reasonable hope of success, and the very slight probability of any such wide adoption. Indeed, in the present state of affairs in the United States, a large number urging measures which tend to throw us with crushing disaster upon silver as a standard, the arguments of the bimetallists serve little purpose but to keep alive, in a blind way, in the popular mind the sense of injury, and to call out a wholly fanciful notion of redress. As long as specialists confine themselves to theory, much may be said; but the moment any immediate action is proposed the obstacles are invincible. It is in the last degree improbable that England, the ruling power in commerce, firmly established on a gold basis, will entertain any scheme that would introduce new and unmeasured terms in finance. Nor is it in the least plain, if this difficulty and kindred opposition elsewhere were overcome, what the first term of adjustment — the relation between the

two metals — should be. The old connection has been completely broken, and the fluctuations of value between the two metals are violent. It is impossible to tell when a comparatively permanent equilibrium will be reached, and at what point it will be reached. The very idea of the restoration of silver would occasion a new set of vibrations. The most sanguine bimetallist can hardly suppose that the regulating force of his scheme is sufficient to establish and maintain an arbitrary ratio independent of the values of the two metals as defined by commerce; nor can he, with any fair anticipation, tell us even approximately what the verdict of commerce would be under the new conditions he proposes. To accept 16 to 1 is to make silver the standard. To accept 30 to 1 is to leave gold the standard, and to reduce by one-half the regulative power of silver. To devise any intermediate ratio is to act wholly in the dark. The bimetallist is as one who, being asked what measures, if any, can be adopted in correction of the violent rise and fall of the sea in the Bay of Fundy, makes answer with a general disquisition on the theories of the tide. Though we should assent to much in the theory of bimetallism, it would still remain the plainest practical wisdom to adhere to gold as a standard. We have already lost by the decline in value of silver the opportunity to double the amount lying at the basis of currency. If the view of the bimetallist is partially correct, and gold has appreciated, we are by so much nearer a stable point. Between the two goals it can hardly be doubted that we are much nearer the point of stability, of safety, gold being accepted as the exclusive measure, than we are in a vague and vacillating pursuit of that other possible refuge,— a permanent equilibrium of gold and silver. After any change is once made and its fluctuations exhausted, it is comparatively immaterial whether the accepted standard, as gold, has one degree or another degree of value. The permanence of that value is the point of

interest. Any appreciation of gold tends decisively to arrest itself. The growth of value is the fruit of increased money-work. But the enhanced value enables the same amount of gold to render an enlarged service. The evils of the transition cannot be permanent, and, once surmounted, leave us in a commanding position. Silver will still furnish us, as a subsidiary coin, the same aid, give the same conveniences, as now belong to it. In a quick but cautious forecast of our danger the bye we should make for seems plainly to be that of a gold standard.

We have also much occasion of congratulation that the losses of transition are no more serious. The great interests of labor have been preserved. Wages have advanced, while the decline of prices has given them increased purchasing power. Prosperity at no point is more important or more significant than in the laboring classes. Profits cannot be very widely or seriously or permanently depressed while the workman is thriving. The disasters of no class are more difficult of recovery, and we may well be comparatively contented with any financial condition which has not greatly embarrassed services.

The class which make the largest demand on sympathy are those who have incurred indebtedness with higher prices in their ruling product — as wheat or cotton — and are now called on to meet it with lower prices. Yet no strange thing has happened to them. This change in price is plainly due to increased production. It is not easy to show that any part of it is due to appreciation; but, if we refer to this cause the 28 per cent. expressed in falling prices, we could not redress the evil by any modification of the currency without sowing wide-cast the seeds of other and greater disasters. The participation of any one class in these general losses would more than compensate it for its direct gains.

The question of a standard of values, as it now offers itself, is a thoroughly practical one; that is, one which

must be governed by the immediate conditions of action. Theoretical perfection can furnish but little light for us. The one inquiry is, What is the most promising position, while the storm is upon us? The possibility of appreciation or depreciation in the future of the two precious metals is beyond our estimates. These disturbing facts we shall be compelled to encounter. That of which we are sure, by virtue of a long record of overreaching stupidity and failure, is that any deviation from the soundest existing standard is certain to increase many-fold the evils of fluctuating values. The theories of finance may be obscure, but its practical lessons are as plain as the most painful reiteration can possibly make them.

JOHN BASCOM.

THE EMPLOYER'S PLACE IN DISTRIBUTION.

THE object of the present paper is to analyze and describe the machinery of distribution, and more particularly to consider how much of truth there is in the wages-fund view of that machinery. In these modern days it is not necessary to remark that the wages-fund view is far from complete or all-embracing. Indeed, courage is required to intimate that there can be any degree of truth in it whatever. Yet in recent discussions of the much mooted questions of capital and wages there is an unmistakable disposition to grant that there was something worth considering in the old-fashioned version of the relation between the two. Something certainly is to be learned, for the understanding of what goes on in modern communities, by examining the relations between capital and wages, between employers and employed; and some sort of dependence of the latter on the former certainly is to be found. Just what sort of dependence may appear from an analysis of the mode in which distribution works itself out in modern communities. In making that analysis, the present writer does not affect to expound any views of startling novelty; nor does he attempt, here and now, to give an exposition at large of the relation of wages and capital. The immediate purpose is only to observe in what manner the distribution of income takes place in modern communities, how business managers and investors and laborers get their shares, and what conclusions are to be readily drawn from such simple observation.

Before entering on this task, it will be best to explain in what sense two inevitably recurring terms will be used. "Capital" will signify real capital; the real apparatus of production in the shape of tangible tools, imple-

ments, materials, and all goods not yet in enjoyable form. On the other hand, it will be convenient to use "income" ordinarily in the sense of money income, if only in order to avoid a repeated specific reference to pecuniary means, which, indeed, the context will usually show to be meant. When real income is referred to, expressly or by obvious connotation, finished wealth or consumable commodities will be meant. Capital, as distinguished from income, will mean all inchoate wealth,—all things not yet in shape for direct satisfaction of wants. As regards the whole community, there is the obvious broad distinction between its real income, now available for satisfying human wants, and its possessions not so available; and in this sense real income and capital will be distinguished.

It may be admitted at once that this use of terms is not without its difficulties, and perhaps is not advantageous for all the purposes of economic inquiry. It excludes from the notion of capital those finished commodities which are needful for the sustenance and working power of laborers. Yet, if the central idea of capital is that of the apparatus which serves to make labor effective, there is some ground for the old-fashioned view that the supplies which sustain the workers are as serviceable to that end as the tools which they use. Further, the apparently simple distinction between finished wealth, available at once, and unfinished goods, needing further manipulation before enjoyment ensues, is not always easy to follow out in detail. Durable sources of satisfaction, like clothing and houses, not only satisfy wants for the moment, but may be said to contain utilities available only as time goes on. In this sense they are not simple income only, but sources of future enjoyment, very much as tools and materials are. On the other hand, many things bought with money income for the direct use of the buyer serve to satisfy wants indirectly, not directly,—such as a multitude of household tools. They may be real income as

distinguished from money income, yet fairly constitute a part of the non-enjoyable wealth, or "capital," of the community.

These difficulties are here mentioned, lest it be supposed that they have escaped attention. They need be no more than mentioned, because they will not prove embarrassing for the purposes of the present inquiry. The meanings just assigned to capital, to real income, to income used to denote simply money income, are sufficiently in accord with common usage to be readily understood; while the inconsistencies or fallacies to which they might lead for some inquiries will not, let us hope, be encountered in the comparatively simple one now to be undertaken. At all events, this choice of terminology may be accepted by the reader for the present, with any reservations he may choose to make as to its possible difficulties for the discussion that follows.

Let it now be assumed, as the starting point in the inquiry, that we have a community in which the money *régime* has reached its complete development. Let it be supposed that the division of labor, with its results as to exchange, sale, and money, has been carried so far that no one consumes any of the things he produces. Every article produced comes to market, and is sold. This is so largely the case in the advanced communities of modern times that conclusions reached on the assumption of its being universally the case cannot diverge seriously from the truth. It follows that the total product or output of the community is sold for money. It follows, also, that all income of every sort appears first in the form of a money receipt. All real income is thus derived from the use of money income. The inquiry as to money income becomes an inquiry as to the first step, and a most important step, towards the final receipt of consumable goods.

But, while real income under these conditions is derived

only by the expenditure of money income, the total money income of the community is by no means the same as the money price of the real income. This total is much greater: it is the money price of the entire output of the community. Real income is the flow of consumable goods which are regularly reaching completion, including also a due fraction of the value or utility of the stores of durable finished goods. The output of the community, while including this real income, includes in addition all the inchoate wealth, or capital, which is being steadily produced. But this clear distinction between output and enjoyable income does not appear either in the case of the individual's money income or in that of the community's total money income. Here income and output, in the first instance certainly, run together. Whatever is produced, no matter in what stage it may be with reference to the final emergence of enjoyable wealth, is sold. Every form of output is measured by its owner in terms of money, and is reckoned as a receipt. The gross money income of all the individuals in the community is thus the money yield of the total output. Each producer's net money income is some part, possibly the whole, of the receipts from the things he happens to make and sell, irrespective whether those things do or do not belong to the real net income of the community.

Let us now suppose a simple case, perhaps never to be seen in the actual world, yet largely typical of what goes on in it, and, at all events, serviceable as a first step towards understanding its complexities. Suppose a capitalist, active in the conduct and management of a productive enterprise, to own all of his plant, and to start at the outset with funds sufficient to pay all laborers and buy all materials until sales are made. Such a capitalist buys for cash and sells for cash, pays laborers out of funds in his own possession, and has his assets always under complete and ready control. His product, whatever it be, whether

an article nearer or farther removed from completion so far as the community's real income is concerned, yields him an available income as soon as sold.

That income he is free to spend as he pleases. He may spend the whole of it for his own immediate pleasure. He may reinvest the whole of it, or, rather, may reinvest everything over above what is necessary for his support and the support of those whom he cherishes as part of himself. If he reinvests, he devotes this gross money income to the purchase of more materials, the enlargement of plant, the payment of more laborers. If he spends, he devotes it to the purchase of real income, of enjoyable wealth, for himself and those dependent on him. The mode in which he shall apportion his money income between these different objects is a matter at his discretion.

Let us now stretch still further this supposition of simple conditions. Let it be assumed that all the capitalists of the community are of the sort just described,—that there are no idle investors, no bankers or other lenders, and that all buying and selling are for cash. Every active producer owns his own plant and materials, and every shopkeeper and every merchant his stock. All these persons collectively own the capital of the community; meaning the real capital of the community, the inchoate wealth which is to be advanced by successive stages to completion. Further, let it be assumed that all laborers are hired by these capitalists. None work on their own account or sell anything but their labor. None own capital or have any source of present income beyond pay for the labor of the day. They may have some accumulations in present enjoyable form, such as houses, furniture, food in the closet; but these must have been derived from income of the past. Their income for present work comes exclusively as pay from the capitalists. The older English writers constantly assumed, by implication, if not explicitly, that such was the situation of all laborers.

The assumption may be used advantageously as a point of departure in reasoning about the social conditions of modern times, if only it be not forgotten that the complications of real life and their divergence from the simple assumed conditions must receive in due course a careful consideration.

In such a society, then, the total money income would flow in the first instance entirely into the hands of the capitalist managers. All things produced, whether real capital or real income for the community, would be their property. Under a highly refined division of labor all things produced are sold; and the money yield of all the output would be the gross income of the capitalists. That income they can use as they please. They may spend it all for themselves or invest it all. They may spend only their net income,—*i.e.*, the excess over what they must use to keep intact their capital (and so the community's capital),—or may spend less than their net income, and so cause capital to be added to.

The laborers, on the other hand, would be dependent for their present income on the manner in which the capitalists chose to spend their gross income. If the capitalists were frugal, spent little for personal pleasure, and added much to their accumulations, then more money income would go to the purchase of plant and materials, and more to the hire of laborers. If they chose to spend much for present enjoyment, less money income would go to the laborers. There is indeed a case, of no small importance in actual life, in which it would be immaterial to the laborers, at least for the time being, whether the capitalists turned their income to enjoyment or to investment. This is where the enjoyment of the capitalists takes the form of abundance of personal service,—where they take their pleasure not in food, clothes, and adornments, but in footmen and maids. Here the alternative is not whether more shall be spent on goods, and less turned

over to laborers as wages, but whether wages shall be paid for one sort of work or another. The tendency in modern times, however, is for luxurious expenditure to take less and less the form of personal service. In the main, an increase of expenditure for enjoyment means proximately that a smaller part of money income is turned over to laborers; while an increase of investment and a disposition to add to capital mean that more is turned over to them. At all events, what the laborers get under the conditions here assumed would be determined by the use which the capitalists made of the money income.*

It will be observed that money income alone has so far been spoken of. That money income, to serve its real end for laborers or capitalists, must be spent on commodities. But, if we examine in what manner capitalists can spend the gross income which has been described as freely disposable by them, important limitations to the conclusions just stated appear.

Real income, to repeat, is enjoyable commodities; and, if the capitalists wish to enjoy, they must buy the enjoyable goods, which alone constitute the real income of the community.† The quantity of such real income existing at any time is limited. For the moment it consists of the finished goods now purchasable. For the season it consists of such supplies of partly finished goods as can be got to the stage of completion within the season. It is limited by the quantity of materials, worked up in part or in

* What is said in the text applies, of course, to the immediate effects of a change in the direction of the capitalists' expenditure. After the first stage the change from investment to enjoyment means simply that laborers are employed in one way rather than another. The later effect is on real income. Laborers make commodities for the enjoyment of the (potential) capitalists rather than for the enjoyment of other laborers.

† Strictly, an expenditure on servants would need to be considered, this being a case where immediate satisfaction and immediate real income are secured. It is a case in which the quantity of real income available for the well-to-do happens to be peculiarly elastic, and forms an exception to the general reasoning of the text. Quantitatively, the exception is in modern times probably of no great importance.

whole, which may be on hand, and by the tools and machinery existing wherewith to carry on operations. The total real income available in any season is obviously less than the output of that season. In a community which has reached a high stage of industrial organization, which has spread the operations of production over a considerable stretch of time, and in which a large part of labor is steadily given to the earlier stages of production, the output is very much larger than the real income. But the total money value of the output is the total money income of the capitalists, in the case now assumed. The real income which they can buy is therefore, in its normal money value, very much less than that total income which has been described as freely disposable by them. Even the whole of the real income available for the community is not, in any substantial sense, at the disposal of the capitalists. They can get enjoyment only from finished commodities of the kind and in the variety that their tastes and needs call for. A large part of the commodities now on hand would not serve their turn. The supply of bread and flour and grain at any moment is adjusted to the expected needs of the whole mass of consumers; and, after our capitalists had had their fill, the rest of the breadstuffs would be virtually incapable of giving them any satisfaction. Other commodities would be too coarse for their tastes, or would pall long before the total available quantity was used. The effective choice which the capitalists would have, as to the disposal of the gross income which was freely theirs, would thus be confined, for the time being at least, within limits not very elastic.

Limitations of the same sort appear as to the real wages and real income of the laborers. Like the capitalists, they can get for the money turned over to them only such consumable commodities as exist, or will be ready, within the season. We may suppose, for example, that the capitalists have been moved to abstain from personal expenditure,

and have reinvested largely and heavily, the process involving a transfer of an increased part of their income to the hired laborers. Or we may suppose, to put a case that has played no small part in the history of the wages controversy, that a general trades-union of all the laborers has put the capitalists in a position where, under pain of ceasing investment entirely, they must raise money wages. Whatever the ultimate outcome in this much-debated case, it may be averred without hesitation that the laborers' combination might win a victory in the first step in their campaign,— the advance of money wages. That step is the only one of which laborers or capitalists usually think, and, it must be confessed, is the step with which alone economists have too often busied themselves. But the real gain (apart from the joy of victory) for the laborers must come in the purchase of more commodities in the way of food, drink, clothes, shelter; and of these no more can be bought than there are. How elastic the inflowing supply of such commodities is for any season, how great and rigid are the obstacles to an immediate or rapid change in the available real wages, we need not discuss. What is plain is the existence of some limits, in the nature of the available supplies of finished and half-finished goods. The capitalists, in the case supposed, can turn the money income in any direction they please,— keep it all for themselves or turn more or less of it over to laborers; but the real income which can be secured and enjoyed is in large degree predetermined in quantity and quality.

All this means simply that the machinery of production at any given time is arranged for the supply of the habitual and anticipated wants of the community. Each individual capitalist produces the commodities which he has sold before, and which experience leads him to expect to sell again. The pig-iron maker has a reasonable faith that his iron will be bought by the maker of machinery, and he again that his machinery will be bought by the

person who means to use it in making one product or another. That process of investment and accumulation, by which existing capital is maintained and new capital is added, is thus prepared for and virtually accomplished before the individuals take the steps which for them are decisive, of turning their money income to investment rather than to enjoyment. The producers of luxuries go their way in the same fashion. Some create or maintain machinery for silks and satins, others prepare the raw material, others, finally, buy the products from the manufacturer and arrange them in the shops of the cities, for the expected purchases of the capitalists, who will presumably do as they have done in times past,— spend part of their inflowing money receipts for enjoyment. Not least, the makers of the commodities for laborers continue to produce these on the accustomed scale, anticipating the transference of money income by capitalists to laborers, in the course of that continuance of investment of which the purchase of machinery and materials is the other part. The output of the season, produced and owned under our supposition by the capitalists as a body, is sold again to these capitalists as a body. They own the whole output at the start, and get the whole money income. A part of the output they buy directly either as plant and materials for further production or as commodities for enjoyment: a part is sold to them indirectly, through their transference of money income to the hired laborers. But the assortment of goods, finished and unfinished, that is on hand at any time depends not on the apportionment of their money income which is then made by the capitalists as spenders, but on the apportionment which these same capitalists as producers have been expecting and planning for during a considerable stretch of time in the past.

So much as to the nature and the causes of the limitations by which the capitalists would find themselves hampered during any one season in the really free disposal of

their income. Over a longer stretch of time the case would be different. Here their choice would be effective, not only as to the disposal of money income, but of real output and real income as well.

The steps by which this real control over the product and the income of the community would be exercised need no elaborate explanation. Assume that there is a sudden change in the manner in which the capitalists choose to use their money income,—for example, that they become more frugal and more disposed to invest. Less of luxuries and comforts will be bought by them; the merchants who deal in such commodities will find trade dull; the series of producers who make them will in turn feel the depression. Eventually, less will be made; and the constitution of the real income of the community will in time conform to the new apportionment of the money incomes of the capitalists. On the other hand, the money formerly spent on the luxuries and comforts will be turned in other directions. The makers of machines and materials will find a brisker demand for their products. More money income will be turned over to laborers, and the makers of the commodities consumed by them will similarly find trade good and profits "satisfactory." A shift will eventually take place in the direction in which the productive apparatus of the community is turned. In the long run it is thus true that not only the money income of the community is freely at the disposal of the active capitalists, but that its real income and its real output exist in such forms and in such apportionment as their choice determines. Allowing for the time needed to enable the productive apparatus to accommodate itself to demand, we shall find so much real income for capitalists and laborers and inchoate wealth, in such quantity and variety as the capitalists' use of the total money income calls for.

We may now make the conclusions derived from this

analysis more closely applicable to real life by introducing, step for step, the complications which appear in society as it is organized in fact.

In the first place, no active capitalist is in that position of complete independence which has been assumed,—of neither borrowing nor lending, of buying for cash and selling for cash. He buys on credit, and thus is under obligations to transfer part of his money income, as it flows in, to his creditors; while those to whom he has sold on credit are under similar obligations to him. As between the direct managers of industry, the obligations which thus fetter each one, do not change the case for the mass. Collectively, they are still free and uncontrolled as to the disposal of the general money income. But quite as important as their relations *inter se* are their relations to the great body of bankers, brokers, money-lenders, middlemen of all sorts and degrees, whose business it is to make advances to the more immediate directors of business affairs. The banks of discount and deposit find their chief function in such advances, and are the great types of this factor in the industrial world. Side by side with them are to be found, in every considerable centre, other parts of the same credit organization. Brokers place loans wherever they find funds offering for investment over those short periods for which the regularly recurring debts of the business manager are contracted. The great wholesale houses are a most important and effective part of this organization. They buy on credit, make advances on consignments, nurse this producer and drive to the wall that one; themselves meanwhile borrow largely from the banks; and play a most influential part in settling when and how and where money income shall flow into the hands of those who are, in the more direct and obvious sense, the directors of production and the employers of labor.

In other words, the body of persons whose judgment

and discretion determine how the gross income shall be used, and what part shall be turned over to laborers, is much larger than the group of their immediate employers. In the discussion of the wages-fund doctrine, and indeed in most academic disquisitions on wages and business management, this has been often lost sight of. The immediate employers are thought of as the only persons who decide primarily how and where laborers shall be hired, and whose resources determine what direct advances of wages shall be made them. In fact, the immediate employer is controlled, in greater or less degree, by his relations with this large and complex body of lenders and of middlemen. He can sell rapidly to the merchants who are his first customers if their judgment approves of his wares, and he can get advances from them if they have faith in his capacity and integrity. Similarly, he can borrow from the bankers and brokers according to his repute for success and character. If a long career of successful ventures and punctual probity has given him not only large means of his own, but a high standing in the business world, his immediate resources are almost limitless: he can secure at a moment's notice the command of millions. On the other hand, a rumor of disaster, a revelation of dishonesty, may practically wipe out his means.

Thus we must consider the resources of a large and varied body of persons if we would examine the immediate source of the money wages of hired laborers. Such an examination, at the best, is incomplete: the inquiry as to the source of real wages remains the important one in the background. But the questions as to the machinery of immediate money wages are important enough; and, to repeat, they are to be answered only by examining the doings of the whole array of employers and middlemen and lenders who collectively form the active managers of industry. In recent discussions as to the source of wages

it has not infrequently been asked whether the funds of the immediate employers, available for paying money wages, are predetermined or limited. If any question of this sort is to be raised, it should be not whether the funds or means at the disposal of the individual employer, but whether those of the whole complex body, are limited. The answer probably would be that, while both are elastic within limits, the degree of elasticity and indeterminateness is much less for the whole group than for the individual member. However this may be, it is clear that the control of the total output of society, and so of its gross money income, which was assumed at the outset to be entirely in the hands of the immediate producers and employers, is exercised in reality by a much larger and more varied body.

Next, we have to consider another difference between the real world and assumed conditions,—one of far-reaching importance for many questions of social organization, but less important for those here under review. The employing capitalists — we may now mean by that phrase the varied body which directly or indirectly is active in business management — were supposed to own all the capital. Separate from them, in the main, there stands in the modern world a great mass of investors, who own capital and derive an income from it, but take no direct part in its management.

The investors have made loans to the active entrepreneurs. They have received an engagement for the payment of interest at stated terms, and for the eventual repayment of the principal. They may be conceived, for many social purposes, as the owners of a great part of the community's capital. When a plant is erected with borrowed capital, the lender is in so far virtually its owner. Legally, he is only a creditor; while, in the eye of the economist, he is to be regarded for many purposes

as an owner of real capital. As it happens, however, the legal relation fits exactly the economic relation for the purposes of the present inquiry into the working of the machinery of distribution. If it is asked, who in the end owns the capital of the community? the answer must be, the idle investor, as well as the active business manager. But if it is asked, who controls the capital of the community, and first becomes owner of its total income? the answer must be, the active manager, indebted though he may be to his creditor. The output became his as it goes to market, and is sold; and the gross money income passes first into his hands. He must simply pay the stipulated interest to his creditor. In so far only is he subject to a direct and immediate limitation in his control of the inflowing money receipts.*

It may be suggested that the entrepreneur is subject to a further important limitation, in that he must repay the principal when due. But, while this is clearly the case, so far as the individual entrepreneur is concerned, it is not the case for the whole body of active managers. Investors usually spend for enjoyment only their income, not their principal. The principal, as it falls in, is reinvested; that is, the funds are turned back into the hands of one or another active capitalist, to be again at his free disposal. Substantially, therefore, it remains true that the existence of a separate class of investors affects our supposed case only in one point: the money income which the capitalists get is not wholly at their disposal, but is subject to certain drafts for interest payments to investors.

*Investments of what may be called the "productive" sort are chiefly referred to in the text. Those large loans which are made to States present, in the main, a different chain of phenomena. The money income is here promised the investor by a public body, which in turn gets its funds by taxes, these funds being again derived, if the taxes are indirect, chiefly from the money receipts of the active capitalists; and, if the taxes are direct, from any and every source of money income. Where the proceeds of the loan are used for public works yielding an immediate money revenue, the situation is more like that described in the text.

It may not be amiss to refer for a moment to the mode in which the operations of the investors are connected with that determination of capital through the choice of its owners which was referred to in some of the preceding paragraphs. At any moment the investors have put their principal beyond control. It has been turned over to the active capitalists, who have spent it for plant and materials or have paid it out in wages. Usually, funds borrowed for a considerable time from investors are spent for plant and other durable forms of capital, loans for purchase of materials and for wages payments being obtained from the bankers and other middlemen who are the active co-operators in business management. The plant lasts a long space. The investors have put their means beyond control. This irrevocable commitment of the investor's means finds its other side in the irrevocable commitment of part of the community's gross income to the form of capital. As time goes on, the plant wears out and is renewed; the loan falls due, and the principal is reinvested. These two operations go on side by side; not in the sense that the renewal of actual capital and the reinvestment of investor's funds coincide in individual cases, but in the sense that, for the community at large, they form two aspects of the one process by which capital is maintained. Here, again, the actual making of concrete capital — of buildings, machines, apparatus, materials — does not take place as the direct consequence of the investor's decision to keep his principal intact. It precedes the decision, or takes place *pari passu* with it, in anticipation of that habitual reinvestment which goes on, as a matter of course, in modern communities. Like other habits, it rests on the repeated exercise of volition in the same direction; the effect being none the less caused by the exercise of a choice which, time enough being given, is unfettered.

What has been said of interest payments holds good of

rent payments. Important and fundamental as is the difference between interest and rent, the machinery by which they reach the hands of their claimants is the same. If the entrepreneur uses for his operations a site which enables him to achieve a given result with less outlay than his competitors, he will pay the price of the advantage to the fortunate owner of the site, precisely as he would pay interest on borrowed capital. If he happens to own the site, the inflowing receipts are so much the more completely under his control, precisely as, if he owns all his capital, he is not fettered in his expenditure of the gross receipts by the obligation to pay interest. In neither case is there a distinguishable part of the total income appearing at the outset as separable interest or separable rent. Both represent, so far as they are distinct payments at all, obligations which the active business manager has incurred for a specified diversion of a part of his total money income. They are independent of what may be in fact received by him in consequence of his possession of the capital or the site: they are often different from that usual or "normal" gain accruing from their use, which the economists call true interest or true rent. They are simply money payments which the entrepreneur has promised to make out of the general inflow of his income.

The reader will readily follow the same line of reasoning in other directions: to monopoly receipts, royalty payments, and other sources from which the idle well-to-do and the prosperous business men get accretions of income. So far as the entrepreneur is owner, he gets in these ways additions to his unfettered means; so far as he has borrowed or hired, he has undertaken stipulated payments to others. The corporation of modern times presents all possible varieties of the relation between active manager and idle investor. Nominally, the stockholders are a group of associated active capitalists. Practically, they range from shrewd managers to the most helpless of inactive

investors. Throughout, in all the complexity of the meanings and final causes of these various payments, we find the machinery for effecting them to be the same. In the last analysis the payments may be regarded as interest, or interest plus earnings of shrewdness, or rent, or monopoly extortion; but they all come from gross receipts flowing first into the hands of the active capitalists, who may then be under bonds to make the payments to other persons.

So much as to the mode in which the simple conditions assumed at the beginning of this inquiry are affected by the varied and scattered ownership of capital and other instruments of production. A different modification, and a more important and instructive one, comes in another direction. At the outset, as all capital was supposed to be in the hands of active entrepreneurs, so all laborers were supposed to be hired by them. It is time now to consider how far laborers, in fact, are in this condition, and how far the conclusions derived from the analysis of the simple case need to be modified in regard to the laboring classes.

Clearly, in almost every country great numbers of persons who are usually spoken of as laborers are not hired by capitalists. It happened that in England, at the time when the classic economists were developing their system, a larger proportion of manual workers were in this situation than has been the case in any other time or place: hence the easy assumption of such conditions by these writers, and hence (in good part) their easy acceptance of the wages-fund doctrine. But even in England there were and are unmistakable exceptions. Cobblers, carpenters, cabmen, ply their trades independently, either owning or hiring the tools. In other countries the exceptions are more important and numerous. The tillers of the soil, who in England are employed by capitalist farmers, elsewhere are very commonly owners or tenants. In countries like France and the United States, millions of men whose work is mainly hard, monotonous manual labor are owners

of plots of land, and as independent of hire and of stipulated wages as any great employer. On the continent of Europe, generally, the methods of production on a great scale have not permeated manufacturing industry as much as in English-speaking communities; and the independent artisan holds his own in larger degree against the capitalist producer. The blacksmith, the carpenter, the shoemaker, the weaver, have nowhere been entirely crowded out by the factory, with its *régime* of hired workmen. In many countries such laborers still form a large part of the body of persons whose income is essentially reward for physical exertion.

The question may indeed be raised whether such independent workers can be said to get simply wages. They usually have some capital. Indeed, they must have some small possessions of their own, in order to maintain their position of independence. They may perhaps be described as capitalists, and as receiving something different from wages, this term being confined to the hired work men who get stipulated sums from employers. Any one who is familiar with the traditional plan of economic textbooks, inherited as it is from the classic days, will see with how uncertain a voice most writers have spoken on this topic. Distribution is usually divided into the rubrics of wages, interest, rent; profits being sometimes added of late years as a fourth independent constituent. Wages are described to mean any reward for immediate exertion, regardless of the mode in which the reward comes. In the detailed discussions of wages, however, the case of the hired laborer and of what the employer will pay him occupies the chief place. In every-day speech, too, this is the person whom we think of as receiving wages; and the large array of persons who get a return for labor in a different way are left without any distinctive designation.

The same question of classification and nomenclature

appears in the suggestion that the independent workman is to be regarded not as a laborer, but as an entrepreneur. So considered, he would be said to receive not wages, but that mixed and vexed income which Mill called wages of superintendence, and which in our own day is entitled sometimes business profits, sometimes profits simply, sometimes manager's earnings. And, certainly, a good degree of justification for this course is to be found. The gap between the poorest independent craftsman and the great employer, whom we think of as primarily a capitalist and as earning something different from wages, is filled by a series of different workers, among whom it is hard to find any sharp line of division. Where do business profits cease, and mere wages begin?

We need not stop for any prolonged consideration of this question, which involves not only matters of terminology, but very substantial problems. Probably the best plan for the exposition of distribution at large is to follow the tradition of describing all reward for exertion as wages, thereafter pointing out how various are the forms of exertion, and how different the causes which affect the reward of different sorts, and going so far as to give a special name, such as business profits or manager's earnings, to the return for some peculiar kinds of work. Certainly, for most purposes of classification, we should not be consistent if we drew the line between wages and not wages according to the bare independence of the workmen. The cobbler who works alone in his petty shop gets in the main a return for labor as much as the workman in the shoe factory. The pedler and the shopkeeper's assistant, the small farmer and his hired workman, all earn an income by labor. No doubt the shrewdness and judgment of the farmer or pedler affect his income, as the skill and capacity of the hired workman affect his. No doubt, too, the class of which the farmer and pedler are types own some of the instruments of production, cap-

ital or land, and get their earnings in the course of using such instruments. But the earnings come, in a multitude of cases, without that conscious consideration of the income-yielding possibilities of capital and land which accompanies the work of the large capitalist and large landowner. Theoretically, the earnings may be parcelled off as partly interest, partly rent, partly wages. Practically, they come in as the return for so much work, shrinking or swelling with the fortunate or unfortunate use of such labor and capital as the individual may have at his disposal.

But in one important respect the receipts of the independent laborer, even though they be regarded for most purposes as wages, are to be put in the same class as those of the well-to-do capitalists who were supposed at the outset of the present inquiry to be the only owners of capital and the employers of all laborers. The independent workman gets a primary, and not a derivative, share of the total income of society. With regard to the machinery by which distribution is accomplished, he belongs in a different class from the hired laborer, and belongs in the same class as the active capitalist. He becomes legal and absolute owner of a part of the output of society, and so comes into direct control of part of the gross money income. He may be fettered by debt, as his fellow on a large scale may be; but he is dependent on no fixed bargain for the money income which will serve him to procure a share in society's real income of consumable goods. Herein his situation differs essentially from that of the hired laborer, and herein the phenomena of real life differ essentially from those assumed at the beginning of this inquiry. The hired laborer gets his money income as the result of a bargain by which he sells his working power for a space. The independent workman gets his money income directly from the sale of what he makes. The situation is not always advantageous to the latter. The peasant proprietor

and the petty craftsman do not necessarily prosper more than the hired mechanic. But the hired workman is directly dependent for his money income on an employing capitalist: the independent workman is not.

For an understanding of the machinery by which distribution is accomplished in modern times, the classification of sources of income should thus be different from that to be adopted for an explanation of the fundamental causes. For the latter purpose the different sources of income may still be appropriately divided into wages, interest, rent, with possibly business profits as a fourth term. But, so far as the concrete mode in which money income (and this is the first step to real income) reaches different hands, we must put on one side all the independent producers, whether they conduct operations on a large scale or on a small; on the other side, all receivers of stipulated interest or stipulated rent and all hired laborers. The former get a primary, the latter a derivative, share of the total income of society.

Both the primary and the derivative shares, as they appear in fact, may or may not be what the economist would analyze as simple incomes. The independent producers may be great capitalists; and their net receipts, separated into the constituent parts which are important for the permanent explanation of things, may be made up of interest, and rent, and wages ordinary and extraordinary. Or they may be small fry, in whose earnings wages for very common sorts of labor play so large a part that the other constituents may be dropped from consideration. The other dependent persons may similarly get mixed or simple incomes. The interest paid by a corporation may stand in part for natural advantages which have been capitalized and converted into a bonded debt, that which is interest in form being thus rent in substance. On the other hand, the payment which, in ordinary parlance, is rent for a building or for a plot of

land is usually a mixture of the rent and interest of the economist. Concrete wages, too, may be a complex return, including, in the case of a highly trained workman, not only wages for labor, but interest for the capital sunk in his education. Thus distribution, as analyzed in its last elements, is an abstraction. Its demarcations rarely correspond to the actual receipts which are seen in the industrial world. It may explain the situation, and in that larger sense describe it; but it does not describe with accuracy the direct phenomena. On the other hand, the analysis of distribution, which has formed the subject of this paper, presents the literal facts of the case. The incomes of independent producers, large and small, are the primary sources of distribution. Interest payments, rent payments, wages of hired laborers, are derivative; and their recipients may be described as dependent.

The point has now been reached where we can observe the differences, in their relation to capital, between the wages of the hired laborer and those of the independent workman. The hired laborer is undoubtedly dependent on capital, and gets his wages from capital, in a sense in which the independent workman is not. His money income, the first and the essential means towards getting a real income, is turned over to him by capitalists. It comes from funds in the possession of a body of which his immediate employer is a member, and which includes all the active co-operators in the management and control of industry. Except in so far as he has made a contract covering some length of time, his wages depend recurrently on their disposition to use for productive operations their inflowing money receipts. In this sense, his earnings depend on a wages fund,—on the sums which the employers judge it expedient to turn to the hire of labor. And, in this sense, the independent workmen evidently do not depend on capitalists, or on a wages fund.

In another sense, all workmen, whether hired or independent, get their wages from capital, and are dependent on a wages fund. This is in the sense that all real income comes from consumable commodities, that these are the product of past labor, that the supply of them available for fresh use at any time is small, and that the supply for any considerable stretch of time exists mainly in the form of inchoate wealth. The real income of all classes in the community comes from past product, and in the main from real capital. This is a very different wages-fund doctrine from the other. It will hold good under any conditions of society, so long as the arts are carried on in such manner that a long stretch of time elapses between the beginning and the end of the successive steps in production.

These two things have been curiously interwoven and confounded in the long controversy over the source and measure of wages. The wages-fund doctrine, in the form in which it so long held sway, was supposed to apply primarily to laborers hired by capitalist employers. It was supposed, rather than explicitly stated, so to apply; for the limitation was more often tacitly assumed than pointed out in terms. Adam Smith's brief but pregnant paragraphs had connected the payment of wages from capital with their payment from the funds of employers. Scarce one workman out of ten in Europe, he remarks, is an independent artisan: hence the wages of the great mass depend on what the masters can and will pay them. Later English writers had the same organization of industry in mind, though they did not often say so. While their theories were stated in general terms, they were framed with an eye to the conditions and the needs of the England of that day, where, as it happened, the great mass of laborers were of the hired and dependent class. At a later stage in the discussion, it was more often pointed out in express terms that hired labor alone

was meant to be within the scope of the wages-fund doctrine. When the whole subject then came to be overhauled, it was seen that this assumption had been more or less overtly made, and the avowed scope of the doctrine was accordingly limited. Its advocates set forth that it pretended to do no more than explain how the wages of hired laborers were determined. Its opponents accepted the limitation, and retorted either by pointing out how large was the number of cases left unconsidered and unexplained or by questioning whether it could be maintained even within the chosen limits.

Yet in fact, for the solid truth which underlay the doctrine as to real capital and real wages, it was not necessary to exclude from its pale all other than hired laborers; while, on the other hand, so far as these hired laborers were concerned, the support which it got from their relations with their immediate employers was a treacherous one. None other than these direct employers were usually referred to as the holders of the funds on which laborers were dependent. When it began to be asked whether the money funds which they could pay laborers were rigid or elastic, the only possible answer was that nothing in the nature of a predetermined fund existed, and that the sums which they had at command, whatever causes might affect them, were not in the nature of an accumulation that was fixed once for all when the bargain between them and their workmen was made. With this negative answer the whole traditional mode of dealing with wages and capital was given up. It was forgotten that in an important sense hired laborers are primarily dependent for their wages on the funds which the whole body of active capitalists can and will turn over to them, and that in a still more important sense all laborers, hired or independent, get their real remuneration from that product of past labor to which the classic economists had given the name of capital.

One further topic may be touched, before this lengthened inquiry is brought to a close. So far as the machinery of distribution is concerned, the receivers of rent and interest payments, and the hired laborers, have been described as alike getting derivative incomes and as in that sense alike dependent. It may be asked whether there is any greater degree of dependence for the laborers than for the others.

In one respect the laborers are certainly more dependent. The engagements with them are usually for a shorter period of time. The active capitalist often binds himself for years with those to whom he pays rent or interest; for weeks only, as a rule, with those to whom he pays wages. This is not always the case. The growing strength of organization among hired laborers has led in modern times to more permanent engagements, in which both sides bind themselves for months or a year. Usually, however, the contract with the hired laborer covers a brief period. He is liable to be called on at short notice to show his strength in bargaining with the employer.

The longer term over which the *rentier* (to use that convenient Continental term) makes his bargain is not always to his advantage. He commits his principal irrevocably for a series of years, and takes his chances that his debtor, the active capitalist, will repay it when the loan falls due, being meanwhile powerless so long as the interest instalments are met. That investor whose stipulated income would be called by the economist rent is indeed, usually, in a more assured position. The natural site or resource which enables him to get the entrepreneur's promise of stated payments is likely to endure in another's hands as well as it would in his own; and, if his rent does not appear punctually, he usually finds its source unimpaired when he retakes possession. But so far as the investor of capital proper, the recipient of true interest, is concerned, the advantage which he may have

over the laborer, from the more permanent nature of his contract with the business manager, is conditioned on the care and judgment with which he selects his creditor. Economic history, ancient and modern, presents a plenty of cases in which the greater surety of the investor's position over short periods has proved his ruin in the long run.

Much has been said of late years in regard to another phase of the hired laborer's dependent position, — the importance of his strength in bargaining. Recurrently, as a rule at short intervals, the contract on which his income depends must be renewed. If he stands alone, if he has no savings from past income which would enable him to wait and see what the market offers, if he is ignorant and generally helpless, he bargains at great disadvantage. If he is banded with his fellows, if he possesses the wherewithal to make a trial of strength, and if he has shrewd and well-informed leaders, he bargains to the best advantage. The strength which the trades-union gives the hired laborer in dealing with his employers was not doubted even in the days of greatest faith in the natural laws which were supposed to regulate economic phenomena in general and wages in particular. No one would question it in these less conservative times. The bargaining of the outside investor with his active creditor is not affected, in fact, by factors so very different from those just mentioned. Usually, he can wait a bit for his income. Therein his ordinary position is better than that of the hired laborer. He is often, but by no means always, reasonably shrewd and intelligent, and knows what the general market affords. He gets advice, which may or may not be good, from the large class of bankers and brokers who make a business of placing investments. As to his legal position and the mode in which the machinery of justice enables him to enforce his claims, he may have been in former days better cared for than the hired laborer who is also

a creditor of the active capitalist. But the mechanic's liens of modern legislation give the workmen much the best of it here, apart from the fact that the more rapid recurrence of his stipulated payments diminishes the sum which at any one time is at stake.

This brief notice of some aspects and effects of the hired laborer's dependent position will serve to explain the sense in which the term "dependence" is to be understood. We may keep far from that pessimistic view which finds its expression in the turgid description of the laborer as the slave of the employer, without going to the opposite extreme of concluding that the laborer is no worse off than the investor, because both alike are dependent for income on what the active business manager has promised or will promise to pay them. Neither the helpless widow and orphan nor the down-trodden laborer — two familiar figures confronting each other in the literature of social controversy — are really typical of the practical outcome of this dependence. As to the hired laborer, his position does indeed show that the ownership of wealth in modern societies is very unequally divided, and in so far is not consistent with the ideal organization that would doubtless bring the maximum of human happiness. But it is consistent with a steady improvement in his condition, in his place and power in the community, and in his sources of happiness; and, therefore, we need not despair — men, manners, and morals being what they now are — if it is perhaps the only position he is likely to have for a long time in the future.

F. W. TAUSSIG.

NOTES AND MEMORANDA.

FRIEDRICH ENGELS.

Readers of this journal will have heard with peculiar interest of the death of Friedrich Engels, the last of the four who have claims to the founding of scientific socialism. Of the others, Rodbertus and Lassalle have long since joined the majority, and Marx has been in his grave twelve years. But Engels survived till August 5, 1895. Though not the first in point of originality and brilliancy, he was behind none of the others in powers of work and devotion to his cause; and a great part of his writings is of permanent value. We are bound to recognize the service rendered to political economy by scientific socialism. Socialism will be always with us. If it is scientifically fruitless as a Utopia, as a science it means serious economic study,— not less serious because aimed eventually at the lessening of human suffering.

In another part of this issue will be found an account by Professor Lexis of the third volume of *Das Kapital*, edited by Engels from the manuscripts of Marx. No one can read the preface to this volume without realizing the immense labor the editor has unselfishly spent in giving to his friend's papers something like an intelligible order, and rescuing his book, so far as could be, from the reproach of incompleteness. It should be remembered also that the publication of the second volume* involved no less toil,— toil in putting the manuscripts into shape, and even in deciphering the bad handwriting of the author. In comparison with this Herculean task, it must have been an easy matter for Engels to add, in his preface to that second volume, his vindication of the originality of Marx against the champions of Rodbertus. Yet the vindication is of considerable value not only for its arguments,

*Reviewed by Professor Lexis in the *Jahrbücher für Nationaloekonomie*, vol. xi. (1885) pp. 452-465.

but for its references to economic literature. That there should be special pleading and over-anxiety to acquit Marx of all shortcomings is pardonable in a man who has at all times so disinterestedly identified himself with his departed friend; and a certain acerbity of tone can be forgiven to an old campaigner.

Engels was born at Barmen, in Rhenish Prussia, on November 28, 1820. His father, a wealthy cotton manufacturer in that town, passed him early into the business, and, as soon as he had served his year in the army as *Freiwilliger*, sent him over to the English branch of the firm at Manchester (1843). Coming with a mind well prepared, he laid deeply to heart what he saw in the northern districts of England in one of the darkest times of their history. The result was his remarkable book on *The Situation of the Working Classes in England* (1845), written in German. It is dated from Barmen, March 15, 1845; but Engels was by that time out of touch with business, and the factory in either branch saw little of him for the next five years. He had joined with Marx and Ruge at Paris in conducting the *Deutsch-französische Jahrbücher*, 1844, for which short-lived paper he had written *A Criticism of Political Economy* and a sympathetic review of Carlyle's *Past and Present.* He went with Marx to Brussels and Cologne, and was author with him (1845) of the *Holy Family*, an attack on Bruno Bauer and other former friends, now bitter enemies. He was editor with Marx (1848–49) of the *Neue Rheinische Zeitung.* The famous Communistic Manifesto of 1848 was their joint work. In 1849 Engels fought on the republican side in the luckless rising in Baden, after which, a not unwilling exile, he spent twenty years in the Manchester factory. Retiring from partnership in 1869 with an ample competency, he spent the rest of his life in London, where, on the death of Marx in 1883, he became the oracle of his party, more especially the German section of it. His wife (an Irish lady) died some years before him, and he has left no family.

As long as Marx lived and even afterwards, Engels effaced himself, and appeared as the willing follower. Yet it is owing to Engels quite as much as to Marx that socialism became

both "scientific" and international. Engels helped to build up the theory of Surplus Value and the Brazen Law of Wages, the sources at least of valuable economic discussion, though not impregnable to criticism any more than essential to socialism. He was with Marx the director of the International, at one time so formidable. His book on *Herr Dühring* (1878) shows the range of his powers perhaps more than any other of his writings; but even here Marx is in the foreground. The relation of the two men may be compared to the relation of Darwin and Wallace. As Mr. Wallace's *Darwinism* is in many ways more telling than the *Origin of Species*, so for a lucid statement of the historical, philosophical, and economical basis of scientific socialism we should go rather to Engels's book on *Herr Dühring* than to any work of Marx. The gift of exposition appears in the more popular *Development of Socialism from a Utopia to a Science* (1883) and in *Ludwig Feuerbach* (1888). The smaller writings of Engels make a long list, going down to the *Contribution à l'Histoire du Christianisme Primitif* in the present year (in the *Devenir Social*, Paris, April and May, 1895), and including two remarkable papers on Russia in *Time* for April and May, 1890.

He was a good linguist, and was widely read in science and literature. His natural tenderness, humor, and good humor appeared little in his books, but endeared him to his relatives and friends. He was to the end too uncompromising, and perhaps, like all enthusiasts, too inclined to believe that he who is not wholly with us is entirely against us. He bequeathed to August Bebel and Paul Singer, members of the German Reichstag, his books and copyrights, and £1,000 in trust, to be applied in furthering the election to the Reichstag of such persons as they may think fit. Possibly to avoid the appearance of superstition or more probably from a sentiment of real sublimity, he directed in his will that his remains after cremation should be thrown into the sea.

JAMES BONAR.

REAL ISSUES CONCERNING INTEREST.

Professor v. Böhm-Bawerk is entitled to the last word in the pending discussion. I will neither repeat my former argument nor extend it, but will gladly accept the verdict to which readers may be led by a study of the discussion already published. It is desirable, however, that unnecessary misunderstandings should be removed. Evidently, I have not made my own meaning entirely clear to my eminent opponent; and a word of explanation may make it clear, and thus confine attention to real issues. I have not fallen into the particular misunderstandings of Professor v. Böhm-Bawerk's theory that in his last article he attributes to me.

1. Quoting from my article in the April number of this journal, Professor v. Böhm-Bawerk makes me say that he has recently "introduced into the problem for the first time" the case of money, for a certain test purpose. The important words "for the first time," do not occur in my article. Moreover, the term "introduced" was not used in that special sense which might have implied that the term had not been used before. The case of money was introduced, or inserted, into the argument in *The Positive Theory of Capital*, and again in the article referred to.

2. I hold an abstinence theory of the origin of capital. In this view, a man who accumulates capital denies himself some present gratification in order to do it. He very rarely goes hungry in consequence of saving. As a rule, he does not cut very deeply into his current indulgences. In every case in which he adds to his fund of productive wealth, he must cut off some pleasurable outlay that he might otherwise have made. By extending the lines of railroad that he owns, the multi-millionaire denies himself the enlarging of his palatial residences.

I am, therefore, definitely precluded from attributing such an abstinence theory as this to Professor v. Böhm-Bawerk, and then criticising his system on that account. Moreover, it

could never occur to me to attribute to him so crude an abstinence theory as the one that he has disclaimed and criticised. Not for a moment have I understood my clear-sighted opponent as claiming that the capitalist "suffers want or hunger during periods of production." I have understood that in Professor v. Böhm-Bawerk's theory the capitalist is made to relieve the laborer from the necessity of suffering want and hunger during such periods. It is my own claim that he could not do this without in some way trenching on his own immediate gratifications. If the so-called periods of production have the power to make laborers wait for consumers' goods, unless the capitalist relieves them, then the capitalist must wait *for something* if he does thus relieve them. Where A advances something to B, and later receives something from B, A does "vicarious waiting." The theory that the periods of production involve such waiting is what I have attributed to Professor v. Böhm-Bawerk; and my criticism would not be refuted if it were shown that the capitalist who takes the necessity of waiting upon himself does this without cutting off a single indulgence.

If we were to think of the capitalist as having in his possession concrete consumers' goods of a definite kind, and in such abundance that he could not possibly use them at once, he might then make over some of them to laborers with no abstinence whatever on his own part. If we think of him as having not usable goods of determinate kinds, but a command of wealth undeterminate in kind, we could not make him advance any of this wealth without abstinence. He would have to repress, for the time being, some of his own limitless wants. A man with a carload of bread at his disposal might feed laborers with the superfluity of it, and suffer in no wise therefor himself. The man with a hundred thousand dollars' worth of whatever he wishes cannot take a part of this resource in the form of a carload of bread, and present it to laborers, without abstaining from the luxuries that the resource would otherwise have yielded.

3. The contention that vicarious waiting, if it is done at all, must involve abstinence, is mine. . The view that such waiting is done — independently of the question whether it costs the

capitalist anything or not — is what I have attributed to Professor v. Böhm-Bawerk. The thought that a capitalist would need to go hungry in order to relieve hunger was so far from my mind that I may not have adequately guarded the language of the recent article against the danger of conveying such a meaning. On the other hand, the view that a capitalist, if he were to make an advance to laborers out of wealth that he can command in any form in which he may choose to take it, must do it at some present cost to himself, is inseparable from my thought; and in most statements on this point I should not find it necessary to make the distinction between vicarious waiting and vicarious abstaining.

For a phrase that is not carefully guarded against a misunderstanding the danger of which did not occur to me, I accept all due responsibility. What, as is to be hoped, may now be clear, is that I have attributed to Professor v. Böhm-Bawerk the theory that a capitalist does vicarious waiting. In my own view, he could not do this without a certain vicarious abstaining. In no possible view would the abstaining go to the length of assuming the privation from which the act relieves the laborer.

The entire point that I intended to raise is this: Where does waiting or abstinence in reality occur? Does it connect itself with the periods of production? Yes, if a capitalist advances wealth in some form to laborers at the beginning of such a period, and in return gets something from them in the end. No, if such an advance is not made. My whole contention here is that, in static industry, and *in connection with the periods of production*, no advance whatever is made. Just here the worker is not relieved from waiting, and the capitalist is not made to wait. *In the original creation of capital* there is abstaining, and here only. The periods of production do not inflict the necessity for abstaining or waiting on any one. The location of the abstinence or waiting is the sole point in question; and, as my view concentrates it into the act of creating new capital, which is a dynamic phenomenon, this view removes it entirely from static industry.

4. It is my contention that the average period of production, as well as particular periods, might conceivably be made

longer without creating a condition in which either the burdens or the gains of industry would be larger than before. If the lengthening of the average period were accomplished in a way that entailed an accumulating of new capital, then there would be involved both abstinence and an increase of production. Conceivably, the lengthening might be effected without this. We might then have an unchanged rate of interest on a fixed amount of capital, with varying lengths of the average productive period. We have only to multiply such illustrations as were suggested in the former article to have in view one possible way in which the change of length of the average period might take place.

There are real and important issues to be settled. Is a distinction to be made between permanent capital and that perishable and renewable tissue of capital that I have called capital goods? Is waiting, or the postponing of pleasure, entailed solely by the original creation of permanent capital? Are we to distinguish between the static and the dynamic phenomena of industry, and connect time sacrifices wholly with the dynamic phenomena, while interest is static? Would time sacrifices cease, and would interest continue, if industry were reduced to a static condition? Could the average period of production, which would exist in a static industry, be made longer without necessarily affecting the quantity of capital or the rate of interest? If these things are so, then the rate is not dependent on that average period. Again, could this period be made longer *by means of an increase of capital* without affecting the rate of interest? If so, the rate is dependent on the amount of the permanent fund. These are the issues. Germane to these are such further problems as the question whether time sacrifice, wherever it be located, involves abstinence.

In such discussion of these topics as I have offered, by no means all the considerations advanced have been offered as though they were in opposition to views of Professor v. Böhm-Bawerk. Certain points I should be certain in advance that he would agree with. The two theories under consideration have a large area of coincidence; and it is to be hoped that, by further and more complete formulation of the differing

views, this area may be increased. There is a field of real disagreement, and here only one of the theories can be correct. The test that has to be made of them does not extend to an estimate of their value. It may be that the one that is the less correct may be scientifically the more fruitful.

JOHN BATES CLARK.

RABBENO'S AMERICAN COMMERCIAL POLICY.

PROFESSOR RABBENO's book * appeared in Italy in 1893, under the title *Protezionismo Americano*, and has thus been before the public for several years. The English translation, however, now brings it within reach of a much larger number of interested readers, especially in the country whose commercial policy it discusses. The fresh appeal thus made for the attention of the English-speaking public renders it appropriate to give some account of the contents of the book and some estimate of its value.

There is always a gain in objectiveness when political and economic questions are approached by a foreigner; and in the present case the gain is made the more distinct by the qualities of the foreign observer. Professor Rabbeno belongs to what it is the fashion to call the historical school. At all events, he has no great faith in general principles one way or the other; has no enthusiasm, hardly a predilection, for either protection or free trade; is willing to admit that one system or the other may be advantageous in different periods; and is chiefly interested in the connection of a protective policy with the general industrial development of a country. Hence in this series of essays he sets an example of unbiased discussion which may be warmly commended, and which will certainly

* *The American Commercial Policy*. Three Historical Essays. By Ugo Rabbeno, Professor of Political Economy in the University of Modena. London and New York: Macmillan & Co.

be welcomed by the enlarged circle of readers now reached by the English version. Whether or no his specific conclusions are accepted, the temper in which he approaches them is admirable. In general, the book is fair, reasonable, and accurate; and the reader who got his information from this source alone would have, on the whole, a very just conception of the history of the tariff controversy in the United States.

Not only is Professor Rabbeno cool and judicial: he is also careful and complete. Living as he does at a great distance from the country whose history he investigates, he has been compelled to rely very largely on second-hand sources of information. But these he has examined with painstaking industry, and with surprising success in keeping clear of errors of fact. All the accessible sources he has examined with care; and such occasional inaccuracies as appear, are to be ascribed to the ill-digested volumes from which he has often had to draw his information.

Further, this book is the only one which endeavors to present a complete view of the whole course of protection in this country. Beginning with the colonial period, it examines the policy of England towards the colonies, the effects of the mercantile system, and the legislation of the colonies themselves. Then comes the tariff history of the United States since 1789; and, in conclusion, an examination of the theory of protection as set forth by American writers. This last takes the form of a series of essays on the four writers who are supposed to present theories characteristically American,—Alexander Hamilton, Frederic List, Henry C. Carey, and, in our own day, Professor Patten.

Thus we have a broad view of all aspects of the subject. In fact, the view is too broad. A good part of the matter in the first and third parts of the book hangs but loosely to its proper subject. There is an extended discussion of the character and justification of the mercantile system, which might find a place as well in the tariff history of any other country, and which adds nothing to what has been said on this topic in very familiar books. In the essay on Hamilton there is a similar extended discussion of Hamilton's financial views,

which are indeed connected with his opinions on protection, but not so intimately as to warrant this long digression. The entire essay on List hardly belongs in the volume; for, though List wrote a significant early essay on American conditions, his distinctive place in the history of economic thought and his real influence are to be found in Germany. And even in those parts of Professor Rabbeno's volume which are not subject to any reproach of direct digression there is repetition and liberal reaching out. The besetting temptation of the professor, to expand freely and to exhibit large stores of thought and knowledge, has not been fully resisted. Even the complete survey of American protection which he endeavors to give might have been advantageously presented in smaller space.

At the close of every such volume the reader asks himself what are its main lessons, and what is its contribution to the general principles of economics; what its answer as to the good or ill effect of a protective policy, and what its conclusion as to the position of such a policy in the theory of economics at large. Professor Rabbeno's results on these fundamental questions are characteristic of a trend of thought now much in vogue in Italy; and, in the opinion of the present writer, they are the least successful parts of his work. The varying periods of protection and free trade in the United States, he finds, are the consequences of the struggles and bargains of the dominant classes,—the capitalists and land-owners. The prosperity of the community at large enters into them but little. The tariff controversy is connected mainly with the selfish desires of the ruling industrial powers, and will continue fruitlessly until, in course of time, with the evolution of some better economic and social system, the whole question of free trade or protection disappears of itself.

Just what is the nature of the treatment which Professor Rabbeno thus adopts will appear more clearly if we consider in detail some of his conclusions as to specific periods in American tariff history. An earlier period, 1807–30, is described, accurately enough, as one of transition from the domestic to the capitalistic system of industry. But it is also

described as a period during which the capitalists, finding labor scarce, land free, and wages high, resorted to protection as a means of lowering wages and fettering workmen; the protective policy being thus a species of machination of the capitalist class. It is pointed out, to be sure, on the lines of the familiar young industries argument, that this policy led to industrial progress and to more effective methods of production. But its adoption is supposed to have sprung from the selfish pressure of the capitalist class. This version of the case it would be impossible to support by contemporary evidence. No doubt it is true that the efforts of the producers who get benefit from protective duties always have a large share in bringing about their adoption. But the abiding force that led to the protective tariff legislation of the period between 1816 and 1832, was the belief of a large majority of the people in the Northern States, irrespective of classes, that such legislation would benefit the community as a whole. Whether or no this belief was well founded, it was the force on which the protective movement rested, and without which pressure from the manufacturers directly engaged in protected industries would have availed little. As to pressure from capitalists as a body, there simply was none. Here, and indeed throughout Professor Rabbeno's speculations on these general topics, capitalism and capitalists are spoken of as if all such persons were banded together, pursuing a common aim and exercising unitedly a single pressure on legislation. So far as tariff history is concerned, this is a myth. There never was an organization, conscious or unconscious, of the capitalists at large, with a view to modifying the tariff in one direction or another; and to explain the varying current of legislation by reference to such class influence is, in the opinion of the present writer, to simplify history at the expense of truth.

The same objection may be urged even more strongly against the interpretation of later events from the play of conflicting social forces. In 1830–60, we are told, free trade was adopted as "a compensation to the agrarian interests"; *i.e.*, to the South, where the laborers were slaves. Capitalists, in general, no longer needed protection, and therefore assented to the concession of free trade to the landed interest.

Here, again, we have the suggestion of a bargain between the capitalists as a body and the land-owners as a body,—a version curiously at variance with the diversity of occupations and interests among the capitalists of the North, and the enormous gap between the slave-holders of the South and the great farming population of the North. The facts of the case are much less simple, yet in no way mysterious. The ups and downs of political parties; the long rule of the Democratic party, and the supremacy of the South within it, during the generation preceding the Civil War; the decline of the popular feeling for protection in the North; the slavery question pushing the tariff into the background; not free trade at all, but a period of moderated protection, beginning only with 1846,—these are the complex facts, not easily conformable to any large social speculation, and illustrating rather the irregularity than the simplicity of the play of economic and social forces.

A still more fanciful use is made of the supposition of united action by the capitalist and land-owning bodies, when the Civil War is explained as "a desperate effort on the part of the capitalists to subdue free trade and slavery, that increased the land rent, which in its rapid development began to undermine the profits of capital." This, so far from describing "the most probable cause of the war," is curiously at variance with the real situation. If there was any consensus of opinion and pressure among the capitalists of the North, it was in favor of compromise and of avoiding the war; while the land-owners might be accurately described, not as a united body fighting in behalf of rent, but as divided into two great hostile camps, North and South, struggling for the unoccupied territory of the West.

Less obviously distorted, and yet as little true to the facts of the case, is the explanation given of the maintenance of protection during the period that followed the Civil War. The cause of the long high-tariff régime lies, we are told, in the throes of capitalism, in its endeavor to escape from the consequences of excessive accumulation. This has led to excessive production, to chronic depression, to combinations and trusts as means of keeping up profits, and lastly to protection for the same end. Here is a tempting generalization; but how much

of it would remain after a detailed examination of the course of tariff legislation from 1865 to 1894? Those who regard protective duties as devices solely for transferring money from one man's pocket into another's will doubtless go a good way with Professor Rabbeno; and those who look upon our customs acts as simply a series of cunning manipulations of legislation in the interest of designing manufacturers will believe him to be in the right as to the source which has controlled legislation. Heaven knows that there has been enough of interested pressure and wrongful profit. But it has certainly not been the capitalist class as a body that has exercised the pressure; nor has patriotic spirit or popular support been lacking among the protectionists. Cause and effect are inverted in Professor Rabbeno's interpretation. It is the existence of a strong public opinion in favor of protection that has enabled private interests to secure their gains, not the pressure of private interest which has established the protective system.

How the public opinion on which the protective system has rested was begun and maintained, may not be easy to explain in simple terms. The accidents of history, the upheaval of the Civil War, the unexpected turns and incongruous results of party politics,— these may explain some parts of our recent tariff history. The natural predilection of the average man for what is supposed to be more especially "native" industry, and the difficulty in following the reasoning which has led most economists to adhere to the general principle of free trade, are also to be considered. Some substantial benefits from protection, real though exaggerated, have played their part. It is tempting to find large explanations for large phenomena, and to apply a general philosophy of history to a great sweep of events; and there is a disappointing air of giving the problem up, when we can only refer to several disconnected causes for the explanation of such an apparently simple phenomenon as the thirty years of high protection in the United States. But it is doubtful if the facts justify any larger speculations. Here, as in other parts of economic history, we find, at all events in the present state of our knowledge, so much that is irregular and irreducible to law that we must be sceptical as to any sweeping philosophy.

Certainly, it is difficult to find in the tariff history of the past generation evidence of "a gigantic struggle between capitalism and landed property, between profits and rent." Such a struggle Professor Rabbeno thinks he discerns. The Republicans are the protectionists, standing for capitalism, while the Democrats are the free-traders, standing for the landed interest, both being indifferent at bottom to the laborers. This interpretation could hardly occur to any one but a foreigner, for whom the twists and turns of American politics must be almost impossible to follow. It is conceivable (to refer to another of our author's generalizations) that the rapid accumulation of capital and the increasing intensity of domestic competition may have had their share in bringing about both the drift to consolidation and monopoly, and the recurring demand for protection against foreign competitors. But the vast struggle between profits and rent is surely a myth, and the maintenance of protective policy does not have its chief significance in any deep vortex of social forces.

The source of these larger speculations is not far to seek. Professor Rabbeno, in an inaugural address delivered on assuming the chair of economics at the University of Modena, professed himself a disciple of his distinguished associate in Padua, Professor Loria. That eminent scholar has set the example both of bold generalizations in economic history and of the application of some large theorems to the explanation of American economic history. The marks of his influence are to be seen in the general trend of Professor Rabbeno's reasoning on questions of principle, and appear even more clearly in those speculations on the social significance of American tariff history which have been commented on in the preceding paragraphs. The boldness and brilliancy of Professor Loria's work, and the suggestiveness and ingenuity of his generalizations, not unnaturally tempt to emulation. But it may be doubted whether the keys to the understanding of the industrial development of the United States have been found by either the leader or the disciple. Soberly considered, the facts are intricate, and show the action of divergent and irregular forces. They justify few of the sweeping generalizations which underlie the discussion of the two Italian philosophers.

It would appear, therefore, that, as to the fundamental problems of international trade, and so of free trade and protection, we gain little from the present volume. The essence of the author's attitude towards the protective controversy is that it presents only a phase of a larger social struggle; and for this general result the facts, soberly and attentively considered, give no warrant. Doubtless, the question of free trade or protection often touches social questions. It did so in the corn-law battle in England, and in the position of the slave-holding South in the United States. It does so in the agrarian agitation which has appeared in Germany in our own day. But, in the main, the controversy is concerned with the production of wealth rather than with its distribution; with the direction which the productive forces of a country as a whole shall take, rather than with the share in the general output which shall go to one or another of the social classes. It is from the first point of view that we are likely to get the most instructive and workable results from investigations of tariff history. This is not the point of view taken, in the main, by Professor Rabbeno; and hence, in the opinion of the present writer, he has contributed little to the essential philosophy of the subject.

F. W. Taussig.

Professor Böhm-Bawerk's contributions to the columns of this journal, in answer to American critics of the positive theory of capital, have been interrupted by his temporary assumption of the office of minister of finance in Austria. A political crisis in that country led to the formation of a ministry, composed of officials standing outside the parliamentary circle, in whose hands the conduct of affairs was put during a period of deliberation and uncertainty. We understand that the service with which the distinguished economist was then honored has come to an end, and that further contributions from his pen to the literature of his subject may again be looked for.

Dr. J. H. Hollander, of Johns Hopkins University, proposes to edit for the British Economic Association the correspondence of Ricardo with J. R. M'Culloch, and with Hutchens Trower, a London stock broker and Surrey landowner. There are some fifty letters to M'Culloch, and some twenty-five to Trower. Dr. Hollander would be glad to hear of other letters of Ricardo's in private hands.

Among recent and forthcoming publications we note a number of new books and new editions which will interest the student of economics. Professor Giddings promises *The Principles of Sociology;* Professor Clark, *The Distribution of Wealth,* in two volumes; Professor Seligman a volume of *Essays in Taxation;* Professor Henry C. Adams, *The Science of Finance;* while Professor Bascom has published his *Social Theory.*

A second revised edition has been published of Professor Bastable's *Public Finance.* A third and also revised edition of the first volume of Professor Marshall's *Principles*

of Economics is in press, and may be expected shortly. Professor Sidgwick has in preparation a third edition of his *Principles of Political Economy;* and Professor Philippovich has similarly in preparation a new edition of his *Grundriss der politischen Oekonomie.*

THE first number of the *American Journal of Sociology* appeared in July of the current year, the second in September. Six numbers a year are promised. The *Journal*, it is announced, will not be the "organ" of any school of sociological opinion; and the first issue states that "the cardinal principle of editorial policy will be insistence that the relation of details to the whole plexus of societary activities, past, present, and future, shall be the fundamental consideration in all the contents of the *Journal*." Professor Albion W. Small is editor; and the second number prints a list of advising editors, American and foreign. The *Journal* is published by the University of Chicago; and subscriptions ($2.00 a year for the United States, $2.50 for foreign countries) should be sent to the University of Chicago Press.

THE resignation of Professor E. W. Bemis from the University of Chicago has been the occasion of abundant comment in the public press, and of some sober reflection in academic circles. It has been freely stated that Professor Bemis's resignation was asked for because his views on some questions were not acceptable to the authorities of the university, and, more especially, were obnoxious to rich men who had given generously to the institution. His opinions on the policy of municipal ownership or control of public works, on the evils of private management, and on the expediency of encouraging labor organizations,—opinions which were avowed freely before and after the assumption of his post at Chicago,—are now alleged to have proved objectionable to benefactors of the university, and so to have led to his virtual dismissal.

To these statements President Harper, at a public function on the first of October, made a strong and explicit denial. In the University of Chicago "there has never been an occasion for condemning the utterance of any professor on any subject, nor has objection been taken in any case to the teachings of a professor." There have been occasions when the President deemed it wise to consider the methods of a given instructor, but "in reference to particular teachings" no interference has been attempted. Further, no donor has ever sought "by word or act, directly or indirectly, to control or influence the policy of the university in reference to the teachings of its professors in the departments of political economy, history, political science, or sociology." And, lastly, this strong statement is made by way of emphasizing the policy that "in a university, as distinguished from a college," there should be "the largest possible freedom of teaching."

Such an explicit statement might be expected to set in satisfactory light those aspects of the case with which the public has a right to concern itself. It may indeed be remarked that there can hardly be any solid ground, under the existing conditions of higher education in the United States, for the suggested distinction, in the matter of academic freedom of utterance, between college and university; and that it is not clear how much is covered by this qualification of the general principle. But, so far as the particular case is concerned, the denial of the charge is certainly meant to be explicit, and the whole matter is expected to be definitively set at rest.

Unfortunately, Professor Bemis still believes that he has reasons for a different understanding of the case, and has given to the public a statement of those reasons. He still believes that his withdrawal from the university was caused by the opinions he has professed. In a statement given to the press, he quotes from a letter of President Harper's, which speaks of "peculiar circumstances here" and the "environment" in Chicago, and is supposed by Professor Bemis to point to his specific teachings. He quotes from another letter in which President Harper, referring to a public address by Professor Bemis, proposes that "during the remainder of your connection with the university you

exercise great care in public utterances about questions that are agitating the minds of the people." In conversation President Harper is alleged to have spoken favorably of Professor Bemis's academic work, but to have remarked that "the general situation is against you here." The accuracy of recollections of oral statements, however, must always be uncertain; and a different version may come from the other side without conscious misstatement of the facts by either party to the conversation.

Here, somewhat inconclusively, it would seem that the matter will rest. Two men, equally entitled to credence, have very different understandings of the mode in which a subject all-important in their relations to each other has been treated in conversation and in correspondence. It may be hoped, at least, as the outcome of the whole, that the vital principle of academic freedom, on which both speak with equally unflinching tone, may not again need to be affirmed at the University of Chicago, or at any college or university in any quarter.

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[Chiefly published or announced since July, 1895].

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COSSA (Em.). Il Metodo degli Economisti Classici nelle sue Relazioni col Progresso della Scienza Economica. Bologna: Treves di Virano. 8vo. pp. 143. 2.50 l.

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II. SOCIAL QUESTIONS, LABOR AND CAPITAL.

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